THE ARCHITECTURE OF PUBLIC FINANCE

NATIONAL BUDGETING OF BANGLADESH

S M Nazmuz Sakib

The Architecture of Public Finance: National Budgeting of Bangladesh

S M Nazmuz Sakib

Theory, Practice, Methodology, and the Road to a Sovereign Fiscal Future

Prepared with Reference to Global Standards, Bangladesh-Specific Institutional Realities, and the Latest Research Literature

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This textbook is an educational and analytical work prepared for students of economics, public administration, development studies, law, and political science, as well as practitioners in government, civil society, journalism, and the private sector. It is intended to provide a rigorous, modern, and intellectually honest guide to the national budgeting system of Bangladesh.

The analysis, interpretations, conclusions, and recommendations presented in this work are those of the author based on publicly available evidence, global standards, and Bangladesh-specific institutional realities as documented in the latest research literature up to the time of publication. This work does not necessarily reflect the official policy positions of any government, international organization, or institution referenced herein, including the Government of Bangladesh, the International Monetary Fund, the World Bank, or the Centre for Policy Dialogue.

The draft budget frameworks presented in Part Six, Part Eight, and Part Nine (Chapters 37, 46, 56, 63, 64) are analytical exercises constructed for pedagogical purposes and do not represent official government proposals. All figures, projections, and scenario analyses are estimates based on available data and assumptions stated in the text; actual fiscal outcomes may differ materially.

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This textbook was prepared with reference to global standards and the latest available data as of April 2026. The fiscal, economic, and political contexts described herein reflect conditions current as of that date.

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Volume 1: Introductory Disucussion

PART ONE: FOUNDATIONS, PHILOSOPHY, HISTORY, AND THEORETICAL UNDERPINNINGS OF NATIONAL BUDGETING

Preface to Part One

This textbook begins not with numbers but with questions. What is a budget, really, in the deepest intellectual sense? Is it a plan, a promise, a political document, or a philosophical statement about what a society values? Is it a contract between the state and its people, a technical manual for fiscal engineers, or a mirror that reflects the accumulated anxieties, ambitions, and contradictions of a nation at a particular moment in history?

The national budget of Bangladesh is all of these things simultaneously, and understanding it requires the reader to move across multiple layers: the constitutional, the economic, the sociological, the historical, the mathematical, and the deeply human. This textbook has been written to serve students of economics, public administration, development studies, law, and political science, as well as practitioners in government, civil society, journalism, and the private sector who need a rigorous, modern, and intellectually honest guide to one of the most consequential annual events in the life of a sovereign state.

Part One lays the foundation. It begins with first principles, reconceptualizing what budgeting means, what fiscal governance demands, and how the interplay between theory and practice has shaped Bangladesh's budget over more than five decades. It moves through the constitutional architecture, the theoretical landscape, and the political economy to give the reader a fully rounded understanding before the technical chapters of later parts take over.

A word on how this textbook approaches definitions and principles: every field of knowledge, when it grows stale, begins to recycle its own vocabulary. Standard budget textbooks reproduce the same definitions first written in the mid-twentieth century, definitions that emerged from very different economic realities, colonial administrative inheritances, and intellectual fashions that have since been revised or abandoned. This textbook refuses that inheritance. Every core concept here is defined freshly, in light of what we now know about fiscal systems in the twenty-first century, drawing on the latest institutional research, behavioral economics, complexity theory, post-Keynesian macroeconomics, and the lived experience of developing economies like Bangladesh. The reader will encounter familiar terms wearing new clothes, and the hope is that those new clothes will fit better.

CHAPTER ONE: WHAT IS A NATIONAL BUDGET? A NEW THEORETICAL FRAMEWORK

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1.1 Reconceiving the Budget: Beyond the Accounting Ledger

The national budget, in its most elementary presentation to the general public, appears as a list: so much money coming in from taxes, so much money going out to health, education, defense, infrastructure, and interest payments, and a deficit or surplus that bridges the gap. This presentation, while useful for journalists and politicians who need to speak in crisp paragraphs, is dangerously reductive. It mistakes the artifact for the process, the document for the phenomenon, the snapshot for the motion picture.

A national budget, understood through the lens of twenty-first century fiscal theory, is a dynamic, iterative, and politically negotiated projection of the state's capacity to mobilize resources and deploy them toward socially determined ends, constrained by macroeconomic realities, institutional capabilities, international obligations, and the competing claims of organized political interests, all of which shift continuously before and after the budget is presented.

This definition departs from the traditional view in four important ways.

First, it emphasizes dynamism. A budget is not fixed at the moment of its presentation. It lives through the fiscal year, revised by supplementary budgets, modified by administrative practice, reshaped by revenue shortfalls and emergency spending needs, and ultimately evaluated against its own projections in audit reports that most citizens never read. The document tabled in parliament is the beginning of a budget, not the whole of it.

Second, it emphasizes the iterative character of budget-making. The budget for any given fiscal year does not arrive fully formed. It is the product of a cycle that begins many months before presentation, runs through the fiscal year, and feeds back into the following year's cycle through evaluation and learning. Understanding the budget means understanding this cycle, not just the moment of theatrical announcement.

Third, it foregrounds the political dimension. Budgets are not technocratic solutions to mathematical problems. They are political settlements, negotiated under conditions of power asymmetry, where the interests of revenue administrators, spending ministries, international creditors, domestic business lobbies, and ordinary citizens collide and are resolved through processes that are rarely fully transparent. The political economy of budgeting is inseparable from its technical content.

Fourth, it acknowledges the role of constraint. A budget is not a wish list. It is a feasibility document, shaped by what the state can realistically collect in revenue, what it can borrow without destabilizing its macroeconomic position, and what it can actually spend given the administrative capacity of its institutions.

1.2 A New Principle: The Principle of Fiscal Authenticity

Standard budget theory has long celebrated principles like comprehensiveness, annuality, unity, transparency, and accountability. These remain valid, but they are incomplete. Contemporary

fiscal governance demands a principle that existing taxonomies have not adequately articulated: the Principle of Fiscal Authenticity.

Fiscal Authenticity holds that a budget is authentic to the extent that its stated allocations, targets, and priorities bear a verifiable and honest relationship to the actual fiscal behavior of the state throughout the year, and to the evidenced needs, preferences, and welfare of the population it governs.

This principle addresses a problem that is endemic in developing economies and is documented with particular clarity in Bangladesh's fiscal record: the chronic gap between budgetary ambition and budgetary reality. When a government allocates, say, Tk 85,000 crore to education in its budget speech but operationally spends only 65 percent of that allocation by fiscal year end, a deficit of authenticity has occurred. When revenue targets are set at levels that independent analysts consistently identify as unreachable, a deficit of authenticity exists in the revenue architecture. When flagship social protection programs are announced with fanfare but their beneficiary selection mechanisms are captured by local political networks, authenticity has been violated at the implementation layer.

Fiscal Authenticity is not the same as fiscal conservatism. A government may set ambitious targets and miss them for legitimate reasons: economic shocks, delayed project approvals, capacity constraints. What authenticity demands is that the government be honest about these possibilities in its presentation, build realistic contingencies into its framework, and report transparently on deviations when they occur.

For Bangladesh specifically, fiscal authenticity has been a persistent challenge. Annual Development Programme (ADP) implementation rates have historically averaged between 75 and 85 percent, meaning a significant portion of allocated development spending is never actually deployed. Revenue targets set by the National Board of Revenue (NBR) have regularly exceeded actual collections. The principle of fiscal authenticity demands that these patterns not be treated as administrative accidents but as structural features of the budget system that require systemic correction.

1.3 A New Doctrine: The Doctrine of Layered Fiscal Sovereignty

The traditional concept of fiscal sovereignty suggests that a state has the unqualified right to design its own tax system, determine its own public expenditure priorities, and manage its own fiscal position without external interference. This concept was adequate, though never entirely accurate, in a world of more limited international economic integration.

In the contemporary context, Bangladesh's fiscal sovereignty is stratified rather than absolute. The Doctrine of Layered Fiscal Sovereignty holds that a state's effective fiscal autonomy operates across multiple overlapping layers of constraint and opportunity, each with different degrees of externality and reversibility.

The first layer is constitutional and domestic legal constraint. Bangladesh's budget must conform to the provisions of the Constitution of 1972, particularly Articles 83 to 92, which govern the

Consolidated Fund, the Annual Financial Statement, the Finance Bill, and parliamentary appropriation. These constraints are the most locally controlled and the most reversible, subject to constitutional amendment through parliamentary procedure.

The second layer is institutional and administrative constraint. What the Bangladesh government can actually collect and spend is bounded not just by what the law permits but by what the revenue administration, the treasury management system, and the line ministries can operationally deliver. The NBR's data management system, the quality of tax inspectors, the functionality of the Integrated Budget and Accounting System (iBAS++), and the project execution capacity of implementing agencies all set real limits on fiscal performance that no budget speech can overcome by rhetorical ambition.

The third layer is macroeconomic and financial constraint. Bangladesh's monetary policy, managed by Bangladesh Bank, interacts with fiscal policy in ways that limit the government's room to maneuver. Excessive domestic borrowing crowds out private credit. Unsterilized monetary financing of deficits fuels inflation, as Bangladesh experienced acutely in 2022-2024 when inflation peaked above 10 percent. Foreign exchange reserve adequacy constrains the government's ability to manage external debt service and import-dependent public investment.

The fourth layer is international political-economic constraint. Bangladesh's fiscal decisions are bounded by its commitments to international financial institutions, most notably its USD 4.7 billion Extended Credit Facility arrangement with the International Monetary Fund signed in January 2023 and renegotiated through 2025, which includes conditionalities around revenue mobilization, exchange rate flexibility, and banking sector reform. They are also shaped by bilateral aid relationships, trade agreements that constrain tariff autonomy, and the approaching graduation from Least Developed Country (LDC) status expected by November 2026, which will reduce access to preferential trade and development financing.

The fifth layer is the epistemic constraint, which is perhaps the most underappreciated of all. The state's fiscal decisions are only as good as the information on which they are based. Bangladesh's statistical infrastructure, while improved since the 1990s, remains fragile. GDP estimates have been revised substantially. Population data from the 2022 census produced results that surprised many analysts. Household income and expenditure surveys have gaps and coverage limitations. Tax compliance data is incompletely digitized. A government making budget decisions on the basis of inaccurate data is exercising sovereignty over a landscape it cannot fully see.

Understanding the budget requires understanding all five layers simultaneously. Students of public economics who learn only the formal architecture miss the three-dimensional reality of fiscal governance.

1.4 Philosophy of the Budget: From Welfare State Theory to Capability-Centered Fiscal Design

The philosophical traditions that inform budget design matter enormously, because they determine what a government thinks it is trying to achieve when it allocates public resources. At

least four major philosophical frameworks have influenced national budgeting globally, and Bangladesh's budget reflects the influence of all four in uneasy combination.

The Keynesian welfare tradition holds that the state is responsible for managing aggregate demand, smoothing economic cycles, and ensuring a minimum floor of social provision for all citizens. From this perspective, budget deficits during downturns are not failures but stabilizers, and social spending on health, education, and social protection is not generosity but investment in the productive capacity of the population. Bangladesh's post-independence fiscal trajectory, shaped by development finance orthodoxy and the legacies of the planning era, drew heavily on this tradition, particularly in its emphasis on public development investment.

The fiscal conservatism tradition, sometimes called the sound money or balanced budget tradition, holds that prudent fiscal management requires keeping deficits small, debt sustainable, and government spending focused on core public goods rather than redistributive transfers. This tradition has been institutionalized through IMF conditionalities and has significantly influenced Bangladesh's post-2010 fiscal frameworks, creating a persistent tension between development ambition and fiscal caution.

The capabilities tradition, most powerfully associated with the work of Amartya Sen and Martha Nussbaum, holds that the purpose of public spending is not merely to produce GDP growth or maintain fiscal stability but to expand the real freedoms and capabilities of human beings to live lives of dignity, health, knowledge, and autonomous choice. This framework asks not "how much did we spend?" but "what did people become able to do as a result of public spending?" It has influenced Bangladesh's social protection programs, its gender budgeting initiatives, and more recently its Human Development Index-linked planning frameworks.

The post-colonial development tradition, less frequently named as a distinct philosophical school but powerfully present in how Bangladesh thinks about its own fiscal history, holds that budgets in former colonial economies must address the structural deformities of colonial economic organization: the concentration of industry in enclaves, the systematic underfunding of rural infrastructure, the education gaps between urban elites and rural masses, and the chronic trade dependence on a narrow range of primary commodities or low-wage manufactures. Bangladesh's repeated emphasis on domestic resource mobilization, agricultural self-sufficiency, and export diversification draws on this tradition.

A new philosophical framework that this textbook proposes is what may be called Capability-Centered Fiscal Design. This framework holds that the primary measure of budget quality is not the ratio of any aggregate to GDP, not the size of the deficit, not the number of programs launched, but the extent to which the budget systematically removes the structural obstacles that prevent the least-advantaged members of society from functioning as full participants in the economy and the polity.

Capability-Centered Fiscal Design translates into specific budget design principles: spending on health must be evaluated not by quantity but by measurable outcomes in life expectancy, maternal mortality, and functional health among low-income populations; education spending must be evaluated by learning outcomes, not enrollment rates; social protection must be assessed

by coverage of the most vulnerable, not by program count; infrastructure investment must be assessed by access improvements for remote and marginalized communities, not only by aggregate economic return.

1.5 The Budget as a Social Contract: Theoretical Underpinnings

The political philosophy of the budget has a lineage stretching from Thomas Hobbes through John Locke, Jean-Jacques Rousseau, and John Rawls to contemporary political economists like James Buchanan. At its core is a question that is simultaneously philosophical and practical: what do citizens owe the state in taxation, and what does the state owe citizens in return?

The Hobbesian answer emphasizes security: citizens pay taxes and accept state authority in exchange for protection from the war of all against all. From this perspective, defense spending, law enforcement, and regulatory institutions are the primordial justification for the budget.

The Lockean answer emphasizes property protection and limited government: citizens accept taxation only to the extent necessary to protect their natural rights, and any taxation beyond that minimum is illegitimate. This tradition informs much of the contemporary anti-tax political movement globally, though its application to post-colonial developing economies where states are too weak rather than too strong requires substantial qualification.

The Rawlsian answer, most relevant for thinking about equity in budget design, holds that just social arrangements are those that a rational, self-interested individual would choose if they did not know in advance what position in society they would occupy: the famous "veil of ignorance." From this perspective, a just budget is one that maximizes the welfare of the least-advantaged members of society, the famous "difference principle." Applied to Bangladesh's budget, this would imply a strong priority for rural public services, basic healthcare, primary education, and social protection, areas where the least advantaged most clearly depend on public provision.

James Buchanan's public choice tradition, by contrast, argues that budget-makers are not benevolent social planners but self-interested political actors who respond to the incentives created by institutional rules. From this perspective, understanding the budget requires understanding the incentives facing politicians, bureaucrats, and organized interest groups, and designing institutional constraints, such as fiscal rules, independent budget offices, and transparency requirements, that align these incentives with the public interest.

Bangladesh's budget history is most honestly understood through a combination of the Rawlsian and Buchanan lenses: genuine social commitments to poverty reduction and human development coexist with political economy dynamics that allocate resources toward electorally valuable but not necessarily welfare-maximizing uses, and bureaucratic dynamics that favor large, visible projects over difficult, sustained administrative work on institutional quality.

1.6 Exam Questions: Chapter One

Questions for BEcon (Bachelor of Economics) Examination

1. Define the Doctrine of Layered Fiscal Sovereignty and identify the five layers it describes. Using specific examples from Bangladesh's budget experience since 2020, illustrate how two of these layers have constrained the government's fiscal choices. (15 marks)
2. What is meant by the Principle of Fiscal Authenticity? How does the chronic gap between ADP allocation and ADP implementation in Bangladesh represent a violation of this principle? Suggest three institutional reforms that could improve fiscal authenticity in Bangladesh's Annual Development Programme. (20 marks)
3. Compare and contrast the Keynesian welfare tradition and fiscal conservatism as philosophical frameworks for budget design. Which framework more accurately describes Bangladesh's FY2025-26 budget? Justify your answer with specific data from the budget. (15 marks)
4. "The budget is a political document disguised as a technical document." Do you agree with this statement? Discuss with reference to the political economy of budgeting in Bangladesh. (10 marks)

Questions for BSS (Economics) Examination

1. What is the difference between the traditional definition of a national budget and the reconceived definition offered by twenty-first century fiscal theory? Which definition is more useful for analyzing Bangladesh's budget and why? (10 marks)
2. Explain the Capability-Centered Fiscal Design framework. Identify two specific sectors in Bangladesh's budget where this framework is poorly applied and suggest how each could be redesigned to better reflect capability outcomes. (15 marks)
3. How does Bangladesh's approaching LDC graduation affect the fourth layer (international political-economic constraint) of its fiscal sovereignty? What fiscal adjustments does this graduation require? (12 marks)

Questions for MSS (Economics) Examination

1. Critically evaluate the Doctrine of Layered Fiscal Sovereignty as a theoretical framework for understanding fiscal autonomy in developing economies. Is it superior to traditional theories of fiscal sovereignty? Support your answer with reference to Bangladesh's experience with IMF conditionalities in 2023-2025. (25 marks)
2. Apply the Rawlsian difference principle to an analysis of Bangladesh's FY2025-26 budget. Does the budget satisfy the conditions for justice according to this principle? Construct a rigorous argument using specific allocations from the budget as evidence. (25 marks)
3. Using Buchanan's public choice theory, explain why Bangladesh's Annual Development Programme consistently includes projects described by the CPD as "low priority." What institutional design changes would public choice theory recommend to address this problem? (20 marks)

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CHAPTER TWO: THE HISTORY OF BANGLADESH'S NATIONAL BUDGET, 1971 TO 2026

2.1 The First Budget of a New Nation: 1971-1975

Bangladesh came into existence as a sovereign state on December 16, 1971, following nine months of liberation war against Pakistani military forces. The new nation inherited not a functioning fiscal apparatus but its ruins: a treasury that had been deliberately depleted, a revenue administration that had been disrupted, an infrastructure that had been extensively damaged, and an economy that had experienced massive population displacement and agricultural destruction.

The first national budget of Bangladesh, presented for the fiscal year 1972-73, was a document born of desperation and hope in roughly equal measure. Drafted under Finance Minister Tajuddin Ahmad, who had served as Prime Minister of the provisional government during the liberation war, it attempted the extraordinary feat of constructing a fiscal framework for a state that was barely six months old, had no established revenue base, and faced a humanitarian crisis of extraordinary scale. An estimated 10 million refugees were returning from India, agricultural output had fallen sharply, industrial production was minimal, and foreign exchange reserves were essentially zero.

The FY1972-73 budget set total expenditure at approximately Tk 786 crore against revenue receipts of Tk 167 crore, creating a deficit of Tk 619 crore, to be financed entirely by foreign aid and borrowing. The tax-to-GDP ratio was negligible by any contemporary standard. The entire edifice of fiscal governance had to be constructed from scratch: tax laws, revenue departments, treasury management, procurement rules, audit frameworks, and budget classification systems.

This first budget established several patterns that would persist, in modified form, for decades. The overwhelming dependence on foreign aid for development financing became structural. The gap between revenue ambition and revenue performance became institutionalized. The separation of revenue budget and development budget into parallel systems, with the development budget dominated by project aid and administered by a different institutional set of actors, created coordination problems that continue to this day.

The subsequent budgets of the Mujib era (1972-1975) attempted to pursue a socialist development vision, with nationalization of major industries, heavy public investment in reconstruction, and ambitious social programs. The fiscal cost of these ambitions, combined with the global commodity shock of 1973-74 (the first oil price crisis dramatically increased Bangladesh's import bill), produced severe macroeconomic instability. Inflation reached crisis levels, foreign exchange reserves were exhausted, and famine conditions emerged in 1974, claiming hundreds of thousands of lives in what remains Bangladesh's worst peacetime humanitarian catastrophe.

The fiscal history of 1974 contains lessons that remain relevant today. The confluence of an external commodity shock (oil and food price spikes in global markets), a domestic supply shock (severe flooding in 1974), weak fiscal institutions unable to respond effectively, and an over-

extended public sector produced a catastrophic outcome. The lesson is systemic: fiscal resilience is not simply a matter of budget arithmetic but of institutional capacity, macroeconomic buffers, and the quality of the state's relationship with the real economy.

2.2 Military Rule and Fiscal Reorientation: 1975-1990

The assassination of Sheikh Mujibur Rahman in August 1975 and the subsequent period of military governance under General Ziaur Rahman (1977-1981) and General Hussain Muhammad Ershad (1982-1990) produced a significant reorientation of Bangladesh's fiscal system, driven in part by ideological changes and in part by the practical requirements of maintaining international aid flows in a new geopolitical environment.

The Zia era reversed the nationalization policies of the early years, began a cautious program of privatization, and embraced a more market-oriented economic framework that brought Bangladesh into closer alignment with the preferences of the World Bank and the United States, which was Bangladesh's largest bilateral donor during the Cold War period. Fiscal reforms under Zia included the introduction of a new tariff structure, efforts to strengthen the National Board of Revenue (established formally in 1972), and the beginnings of a financial sector framework that established the legal infrastructure for commercial banking.

The Ershad period (1982-1990) saw Bangladesh engage more deeply with the structural adjustment framework promoted by the IMF and World Bank, which emphasized fiscal consolidation, reduction of subsidies, privatization of state enterprises, and trade liberalization. Budget documents from this era show a gradual shift in the composition of public expenditure away from industrial enterprises and toward infrastructure and social services, driven partly by genuine developmental priorities and partly by donor conditionalities.

One significant institutional innovation of the Ershad period was the introduction of performance budgeting elements in select ministries, an early predecessor of the Medium Term Budgetary Framework that would be formally introduced in 2004. The attempt was incomplete and poorly institutionalized, but it represents an early recognition that line-item budgeting, which merely allocated money to inputs without specifying expected outputs, was an inadequate framework for governing public spending in a developmental state.

The period also witnessed the entrenchment of what political economists have called the developmental-clientelist hybrid in Bangladesh's political economy: a system in which genuine developmental initiatives coexist with politically motivated allocations, where public resources are distributed partly according to developmental logic and partly according to the logic of building political coalitions, rewarding supporters, and managing regional and ethnic political pressures.

This hybrid is not unique to Bangladesh; it characterizes the fiscal systems of most successful developmental states, from South Korea in the 1960s to China today. What matters is not the absence of political considerations in budgeting but the extent to which developmental imperatives maintain primacy over purely predatory or clientelist dynamics. Bangladesh's record

is mixed: periods of genuine developmental focus have alternated with periods of more nakedly political budgeting.

2.3 Democratic Transition and Fiscal Modernization: 1990-2008

The restoration of parliamentary democracy in 1990-1991, following mass popular agitation against the Ershad regime, opened a new chapter in Bangladesh's fiscal history. The alternating governments of the Bangladesh Nationalist Party (BNP) under Khaleda Zia and the Awami League under Sheikh Hasina introduced parliamentary oversight mechanisms, greater public debate about the budget, and a gradual improvement in fiscal transparency.

The 1990s saw the introduction of the Value Added Tax (VAT) in 1991, one of the most consequential fiscal reforms in Bangladesh's history. The shift from a sales tax regime to a VAT system was driven by World Bank and IMF recommendations and aimed to broaden the tax base, reduce cascading tax effects, and improve revenue performance. The introduction was not without controversy; business lobbies resisted the new system, administration was difficult given the limited computerization of the tax system at the time, and compliance remained patchy for years.

Nevertheless, the VAT reform, combined with a broader trade liberalization program that reduced import duties and expanded the formal import sector, began a gradual improvement in Bangladesh's revenue performance. The tax-to-GDP ratio, which had been below 5 percent in the 1980s, began inching upward through the 1990s.

The period also saw the emergence of Bangladesh's garment industry as a dominant economic force, which had profound fiscal implications. The ready-made garment (RMG) sector's rapid growth from the late 1970s and acceleration through the 1990s created a large formal export sector subject to at least partial tax and customs oversight, generated employment for millions of workers, and produced significant foreign exchange earnings that eased the balance of payments constraint on the budget. The fiscal authorities' treatment of the RMG sector, particularly through bonded warehouse facilities, export processing zones, and tax holiday provisions, became a template for subsequent industrial policy tools built into the budget.

The introduction of the Medium Term Budgetary Framework in 2004, piloted in four ministries, represented the most significant technical reform of the budget process since the introduction of VAT. The MTBF, modeled on Medium Term Expenditure Frameworks (MTEF) adopted in numerous developing and transition economies with World Bank and IMF support, shifted the budget horizon from a single year to a rolling three-year framework. It required line ministries to articulate strategic objectives, map their activities to those objectives, and project their resource requirements over the medium term.

The MTBF reform was theoretically sound and institutionally ambitious. Its implementation history is more complicated, as discussed in detail in Chapter Five of this volume.

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2.4 The High Growth Decade and Its Fiscal Dimensions: 2009-2020

The period from 2009 to 2020, dominated by the government of Sheikh Hasina and the Awami League, is associated with Bangladesh's most sustained economic growth phase and a significant expansion of the budget's size and ambition. GDP growth averaged above 6 percent annually for most of this period, accelerating to above 7 percent from 2016 to 2019. Poverty rates fell substantially: the proportion of people living below the international poverty line (USD 1.90 per day in 2011 PPP terms) fell from around 44 percent in 2000 to approximately 14 percent by 2016, according to World Bank estimates.

The budget grew dramatically in size and scope during this period. Total budget expenditure expanded from around Tk 113,819 crore in FY2008-09 to Tk 568,000 crore in FY2019-20, representing a nearly fivefold nominal increase. The Annual Development Programme expanded even more rapidly, with large-scale infrastructure investments in roads, bridges, power generation, and urban development becoming the signature of this fiscal era.

The era's most iconic fiscal investment decision was the Padma Bridge project, initially a World Bank-financed undertaking that Bangladesh chose to finance entirely from its own resources after the World Bank withdrew citing corruption allegations in 2012. The decision to build the Padma Bridge with domestic funds, at a cost that ultimately exceeded Tk 30,000 crore, was simultaneously a demonstration of Bangladesh's improved fiscal and economic capacity and a contentious political decision about the allocation of scarce development resources. The bridge, completed in 2022, demonstrated that Bangladesh could execute a complex mega-infrastructure project domestically, though questions about opportunity costs remained.

Several important fiscal trends characterized this period. First, public spending on social protection expanded substantially, with programs like the Old Age Allowance, the Widow's Allowance, and the Vulnerable Group Development program reaching larger populations. Second, health and education spending increased in absolute terms, though their share of GDP remained low by international comparators. Third, domestic resource mobilization improved but lagged behind the pace of spending expansion, requiring increased borrowing.

Fourth, and critically, the fiscal system became increasingly characterized by a pattern that critics labeled "budget gigantism" followed by implementation shortfall: budgets that were large and ambitious in their stated allocations but systematically underimplemented. ADP utilization rates, the ratio of actual ADP spending to allocated ADP spending within the fiscal year, rarely exceeded 80 percent and frequently fell below 70 percent in the early months of the fiscal year.

Fifth, the period saw significant growth in Bangladesh's external debt, particularly from China for major infrastructure projects, Japan for Dhaka Metro Rail, and multilateral agencies including the World Bank and Asian Development Bank for a range of programs. The debt-to-GDP ratio, while remaining within conventional sustainability thresholds, grew meaningfully during this period and the interest burden on the budget expanded.

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2.5 Crisis, Uprising, and Recalibration: 2020-2026

The COVID-19 pandemic of 2020-2021 represented the most severe external shock to Bangladesh's economy since the 1974 famine. GDP growth fell to 3.51 percent in FY2019-20, the first such deceleration in decades. Garment export orders collapsed as European and American buyers canceled. Remittances initially fell before recovering strongly in FY2020-21 as overseas workers sent money home to support families. The government mounted a significant fiscal response, including stimulus packages for affected industries, cash transfers to vulnerable households, and expanded food distribution.

The fiscal response to COVID-19 revealed both the resilience and the limitations of Bangladesh's fiscal system. The government was able to mobilize resources relatively quickly for business stimulus, leveraging the banking system. However, direct cash transfers to vulnerable households were hampered by the absence of a comprehensive social registry, the limited reach of mobile financial services in the most remote areas, and administrative bottlenecks that delayed payments. The pandemic exposed the cost of inadequate investment in digital government infrastructure and social protection systems.

The post-pandemic period brought new challenges. Global inflation, triggered by supply chain disruptions and accelerated by the Russia-Ukraine war beginning in February 2022, hit Bangladesh hard. As a net importer of food, fuel, and fertilizer, Bangladesh faced a severe terms-of-trade shock. Import costs soared. Foreign exchange reserves, which had reached a comfortable level of around USD 48 billion in August 2021, fell precipitously, reaching below USD 20 billion in net terms by 2023. The taka depreciated substantially against the US dollar.

These external shocks, combined with domestic monetary mismanagement and a banking sector crisis characterized by large volumes of non-performing loans and governance failures at several state-owned banks, created the macroeconomic context in which Bangladesh approached the IMF in 2022. The resulting Extended Credit Facility arrangement of January 2023, providing USD 4.7 billion over three and a half years subject to performance benchmarks, imposed significant conditionalities on Bangladesh's fiscal framework, including targets for revenue mobilization, restrictions on monetary financing of the deficit, and requirements for exchange rate flexibility.

The July Mass Uprising of 2024, which resulted in the fall of Prime Minister Sheikh Hasina's government and the establishment of an interim government under Chief Adviser Professor Muhammad Yunus, fundamentally altered the political context of Bangladesh's fiscal governance. The uprising, which involved massive student-led protests against government quotas in civil service employment and escalated into a broader political confrontation, reflected deep popular frustration with governance failures, economic inequality, and the perception that the benefits of Bangladesh's growth had been concentrated among a politically connected elite while ordinary people struggled with rising inflation and stagnant real wages.

The interim government that took power in August 2024 inherited a difficult fiscal situation: a contracting foreign exchange position, a banking sector in crisis, inflation still above 8 percent, GDP growth below 4 percent, and IMF conditionalities that required fiscal tightening precisely

when the economy needed support. Its first budget, presented for FY2025-26, was characterized by fiscal consolidation, a reduction in total budget size from the previous year (the first such reduction in Bangladesh's post-independence history), a sharp cut in the ADP to Tk 230,000 crore from Tk 265,000 crore, and an emphasis on realistic revenue targets and reduced borrowing.

The FY2025-26 budget, with a total outlay of Tk 790,000 crore and a deficit of 3.6 percent of GDP against 4.6 percent in the previous year, marked a significant fiscal recalibration. It acknowledged the limits that previous expansionary budgeting had pushed against: the debt service burden had grown to consume approximately 22 percent of the revenue budget in interest payments alone, a figure that represents a genuine fiscal crisis of resource preemption that crowds out productive spending.

2.6 A New Concept: Fiscal Sedimentation

The history of Bangladesh's budget reveals a pattern that this textbook proposes to call Fiscal Sedimentation: the process by which the accumulated decisions, commitments, institutional legacies, and debt obligations of previous budgets constrain the freedom of current and future budget-makers, layering like geological strata to create a fiscal topography that no single government can easily reshape.

Fiscal Sedimentation explains why Bangladesh's budgets, despite periodic announcements of reform, tend to reproduce certain features year after year: the same structural tension between a large development program and limited domestic resources, the same emphasis on NBR revenue targets that are ambitious rather than realistic, the same pattern of nominal increases in health and education allocations that leave their GDP share essentially unchanged, and the same underfunded social protection programs that reach too few of the most vulnerable.

Sedimentation is not simply inertia. Some of it reflects genuine commitments that are difficult to reverse: debt obligations must be serviced, civil service salaries must be paid, standing programs must continue to function. But some of it reflects institutional and political rigidities: the inability of reform-minded finance ministers to overcome bureaucratic resistance to changing allocation formulas, the political cost of cutting programs with organized constituencies, and the difficulty of convincing international creditors to restructure loan terms.

Understanding fiscal sedimentation is essential for any serious analysis of Bangladesh's budget, because it explains the limits of what any individual budget can achieve, regardless of the intelligence and good intentions of its framers.

2.7 Exam Questions: Chapter Two

Questions for BEcon Examination

1. Describe the fiscal conditions that Bangladesh faced when it presented its first national budget in 1972-73. What were the three most important constraints on that budget? (10 marks)

2. How did the introduction of VAT in 1991 change Bangladesh's revenue system? What were the immediate challenges of implementation and what long-term effects did the reform have on the tax-to-GDP ratio? (15 marks)
3. Explain the concept of Fiscal Sedimentation. Identify three specific examples of fiscal sedimentation in Bangladesh's current budget that are direct legacies of decisions made in previous decades. (15 marks)
4. What were the main fiscal consequences of the July Mass Uprising of 2024 for Bangladesh's FY2025-26 budget? (10 marks)

Questions for BSS (Economics) Examination

1. Analyze the fiscal impact of the COVID-19 pandemic on Bangladesh's budget in FY2019-20 and FY2020-21. What were the strengths and weaknesses of the government's fiscal response? (15 marks)
2. Compare the fiscal character of the 2009-2020 growth decade with the fiscal recalibration of the 2024-2026 period. What structural factors account for the shift? (12 marks)
3. Describe the Padma Bridge financing decision. Was it fiscally rational? Use economic arguments to support your position. (10 marks)

Questions for MSS (Economics) Examination

1. Apply the concept of Fiscal Sedimentation to a critical historical analysis of Bangladesh's budget from 1971 to 2026. Which historical decisions have created the most binding sedimented constraints on current fiscal policy? How might they be overcome? (30 marks)
2. Critically analyze the political economy of Bangladesh's "developmental-clientelist hybrid" fiscal system. Drawing on the work of Mushtaq Khan and other political economy scholars, assess whether this hybrid has been net positive or net negative for Bangladesh's development outcomes. (25 marks)
3. The IMF Extended Credit Facility signed in 2023 represents the fourth layer of fiscal sovereignty (international political-economic constraint) in action. Critically evaluate whether IMF conditionalities imposed on Bangladesh have been welfare-enhancing or welfare-reducing for ordinary Bangladeshis. (25 marks)

CHAPTER THREE: THE CONSTITUTIONAL AND LEGAL ARCHITECTURE OF BANGLADESH'S BUDGET

3.1 The Constitutional Framework: Articles 83 to 92

The legal foundation of Bangladesh's budget rests in the Constitution of the People's Republic of Bangladesh, enacted on November 4, 1972. The relevant provisions, contained primarily in Part VI ("Finance, Property, Contracts and Suits") of the Constitution, establish the essential institutional architecture within which the budget operates.

Article 83 establishes the principle of parliamentary financial control: "No tax shall be levied or collected except by or under the authority of an Act of Parliament." This provision places the taxing power of the state squarely within the realm of parliamentary sovereignty, requiring that all revenue measures derive their authority from legislation.

Article 84 establishes the Consolidated Fund: "All revenues received by the Government of Bangladesh, all loans raised by that Government, and all moneys received by that Government in repayment of any loan, shall form part of one fund to be known as the Consolidated Fund of Bangladesh." The Consolidated Fund principle ensures the unity of public finance, preventing individual ministries or agencies from maintaining independent financial empires outside parliamentary oversight.

Article 85 prohibits expenditure from the Consolidated Fund except in accordance with law and, in the case of amounts not exceeding those specified by law, with parliamentary authorization. This provision, together with Article 88 on the Annual Financial Statement, creates the appropriation framework that requires parliamentary sanction for all significant public spending.

Article 87 addresses the Annual Financial Statement: "The President shall in respect of every financial year cause to be laid before Parliament a statement of the estimated receipts and expenditure of the Government of Bangladesh for that year, in this Constitution referred to as the Annual Financial Statement." The Annual Financial Statement, more commonly known as the budget, is thus a constitutional requirement, not merely an administrative practice.

Article 89 provides for the creation of a Contingency Fund to enable the government to meet unforeseen expenditure that cannot await parliamentary appropriation, with subsequent parliamentary ratification required. This provision is particularly important in understanding how governments respond to fiscal shocks such as the COVID-19 pandemic or natural disasters.

Article 91 establishes the office of the Comptroller and Auditor General, who is responsible for auditing the accounts of the Republic and reporting to Parliament. The CAG's independence, guaranteed by constitutional provisions making removal from office possible only through an impeachment process equivalent to that for judges, is intended to ensure that parliamentary oversight of the budget is supported by independent professional audit.

3.2 The Finance Act and the Budget's Legislative Life

The budget's journey through Parliament involves several legislative instruments. The Finance Bill, presented alongside the Annual Financial Statement, contains the tax proposals for the coming year. It becomes the Finance Act upon parliamentary approval, typically following a period of debate in which opposition members may raise specific objections to tax proposals through the mechanism of "cut motions." The Appropriation Act authorizes the executive to draw money from the Consolidated Fund for the purposes and in the amounts specified in the budget.

A significant constitutional reality of Bangladesh's parliamentary system, shared with other Westminster-model parliamentary democracies, is that the practical ability of the legislature to

modify the budget is severely constrained by party discipline, the numerical dominance of the governing party, and the procedural rules governing budget debate. Cut motions can be moved by opposition members to reduce particular expenditure heads, but they are almost invariably defeated by the governing majority. The substance of budget debate in Bangladesh's parliament is thus primarily symbolic and rhetorical rather than genuinely deliberative in the sense of producing significant modifications to the executive's proposals.

This is not a uniquely Bangladeshi phenomenon. The Westminster model was designed to facilitate executive governance and ensure that the government of the day can implement its program, including its fiscal program, without being blocked by a fractious legislature. The trade-off is that parliamentary scrutiny of the budget, while formally extensive (budget debates can last weeks), rarely produces substantive change.

A new concept relevant here is what this textbook terms the Theatrical Fiscal Parliament: a legislature that performs the rituals of budget scrutiny, including debate, amendment motions, and committee hearings, without possessing or exercising the institutional capacity to genuinely reshape the executive's fiscal proposals. The presence of a theatrical fiscal parliament is a democratic deficit that deserves more attention than it typically receives in fiscal governance literature.

The remedy is not to fundamentally alter the Westminster executive-dominance principle, which serves important functions of stable governance. Rather, it is to strengthen the non-partisan institutional supports for genuine fiscal scrutiny: an empowered Public Accounts Committee with real teeth and cross-party membership, an independent Parliamentary Budget Office with analytical capacity, and freedom of information provisions that enable civil society and media to supplement the legislature's oversight function.

Bangladesh has made some steps in this direction. The Public Accounts Committee has become more active in recent years, summoning audit officials and requesting explanations for spending irregularities. But a genuinely independent parliamentary budget office, capable of independently analyzing the government's fiscal assumptions and producing alternative fiscal scenarios, does not yet exist.

3.3 Fiscal Rules and Their Absence

Many countries have supplemented their constitutional provisions with statutory fiscal rules: numerical limits on deficits, debt, or spending growth, often backed by independent enforcement mechanisms. The European Union's Stability and Growth Pact, which limited member states' budget deficits to 3 percent of GDP and debt to 60 percent of GDP, is the most prominent example. Similar rules exist in Brazil (the Lei de Responsabilidade Fiscal), India (the Fiscal Responsibility and Budget Management Act of 2003), and many other countries.

Bangladesh does not have a statutory fiscal responsibility law, despite periodic discussions about introducing one. The absence of a formal fiscal rule means that the government's commitment to fiscal discipline is politically rather than legally enforced, dependent on the preferences of the

incumbent government, the conditionalities of international creditors, and informal norms within the finance ministry.

This creates both flexibility and vulnerability. Flexibility is valuable: a rigid fiscal rule like the European Union's 3 percent deficit limit has been criticized for forcing inappropriate fiscal austerity during economic downturns, when deficit spending is most needed to support demand. Bangladesh's fiscal framework, without a rigid rule, has been able to respond to shocks like the COVID-19 pandemic with genuine spending increases.

The vulnerability is that in the absence of a legal constraint, political incentives push toward expansionary budgeting in electoral periods, as was arguably the case in Bangladesh during the election-year budgets of 2018 and 2023, and toward ambitious revenue targets that paper over structural revenue gaps rather than addressing them.

A new principle relevant here is the Principle of Adaptive Fiscal Constraint: the idea that fiscal discipline is best achieved not by rigid numerical rules but by a set of institutionally embedded practices, including transparent medium-term fiscal frameworks, independent fiscal councils, meaningful parliamentary audit capacity, and civil society monitoring, that create strong informational and accountability pressures for fiscal responsibility without preventing necessary counter-cyclical action.

3.4 Public Finance Management Law: The PFMR and iBAS++

Beyond the constitutional framework, Bangladesh's budget operates within a body of public finance management (PFM) law and regulation that has evolved significantly since the 1990s, partly through domestic reform effort and partly through the conditions and technical assistance of international financial institutions.

The Public Finance Management Reform (PFMR) program, supported by multiple donor agencies over successive phases from the 2000s onward, aimed to modernize Bangladesh's budget preparation, execution, accounting, and reporting systems. Key achievements include the development of the Integrated Budget and Accounting System (iBAS++), which provides a real-time platform for budget preparation, expenditure tracking, and financial reporting across most ministries and departments.

iBAS++ represents a significant institutional advancement. Before its implementation, budget execution data was fragmented across paper-based systems in different ministries, making it impossible to produce accurate real-time reports on expenditure. The introduction of a unified electronic platform has improved the timeliness and accuracy of fiscal data, supported better treasury management, and reduced opportunities for unauthorized expenditure.

However, the system's coverage remains incomplete. Not all entities that spend public money are fully integrated into iBAS++, and the quality of data entry varies across ministries. Local government units, which receive substantial transfers from the national budget, largely maintain separate and less sophisticated accounting systems. And the existence of a good accounting

system does not in itself ensure good spending: iBAS++ records what is spent but cannot guarantee that what is spent produces the outcomes that the budget intended.

3.5 Bangladesh Bank's Role in Fiscal Architecture

The relationship between the Ministry of Finance and Bangladesh Bank, the central bank, is constitutionally and legally structured to maintain a degree of monetary policy independence while enabling necessary fiscal-monetary coordination. Bangladesh Bank Act 1972, as amended, defines the Bank's mandate and its relationship with the government.

In practice, the boundary between fiscal and monetary policy in Bangladesh has been frequently blurred. The government's borrowing from Bangladesh Bank, through the issuance of treasury bills and bonds that the Bank may purchase in the primary market, represents a potential channel of monetary financing of the fiscal deficit, which creates inflationary pressure. The IMF's 2023 program included conditions specifically aimed at limiting net credit from Bangladesh Bank to the government, recognizing this as a source of macroeconomic instability.

Bangladesh Bank also plays an important fiscal function through its management of the foreign exchange system. The reserve adequacy position directly affects the government's ability to finance imports of capital goods needed for public projects, to service external debt obligations, and to maintain the exchange rate stability that keeps inflation in imported goods under control. The sharp decline in foreign exchange reserves from 2021 to 2023 was not simply a monetary phenomenon; it had direct and severe fiscal consequences, including inflating the taka cost of servicing dollar-denominated loans and increasing the subsidy cost of fuel and fertilizer as international prices rose.

A new term worth introducing here is Fiscal-Monetary Interface Stress: a condition in which the simultaneous pressures of fiscal need (the government requiring central bank accommodation for its borrowing) and monetary responsibility (the central bank needing to maintain price stability and reserve adequacy) create an institutional conflict that neither party can resolve within its own mandate, requiring a higher-level political and economic settlement. Bangladesh experienced significant Fiscal-Monetary Interface Stress in the 2022-2024 period, with consequences including delayed interest rate adjustments, delayed exchange rate adjustments, and ultimately the recourse to IMF support.

3.6 The Role of the Planning Commission

The Planning Commission, operating under the Prime Minister's Office, occupies an unusual position in Bangladesh's fiscal architecture. It plays a central role in appraising, approving, and monitoring development projects that are funded through the Annual Development Programme, yet its formal authority in the budget process is secondary to that of the Finance Division, which ultimately determines resource ceilings.

This dual-center structure, with finance authority in the Finance Division and development planning authority in the Planning Commission, creates coordination challenges that are a recurring theme in analyses of Bangladesh's public investment management. Projects may be

approved by the Planning Commission with investment costs that the Finance Division then struggles to fully fund in the ADP. Revisions to project costs require re-approval through the Planning Commission process, creating delays. Monitoring of project implementation, theoretically the Planning Commission's responsibility, is fragmented with the Implementation, Monitoring and Evaluation Division (IMED) playing a separate but related role.

The FY2025-26 budget's treatment of the ADP illustrated this structural tension: the interim government's decision to reduce the ADP by Tk 35,000 crore relative to the previous year required reprioritizing hundreds of projects, a process managed jointly by the Finance Division and the Planning Commission, resulting in the reclassification of many mega-projects to "low priority" status according to the CPD's analysis, which found that 16 out of 20 mega-projects had been so categorized.

3.7 Exam Questions: Chapter Three

Questions for BEcon Examination

1. Identify and explain four constitutional provisions (Articles 83-92) that form the legal foundation of Bangladesh's budget. For each provision, give an example of how it operates in practice in the annual budget cycle. (20 marks)
2. What is the Theatrical Fiscal Parliament? Does this concept apply to Bangladesh's parliament? What institutional reforms could make parliamentary scrutiny of the budget more genuinely effective? (15 marks)
3. Explain the concept of Fiscal-Monetary Interface Stress. How did Bangladesh experience this condition in the 2022-2024 period? (10 marks)

Questions for BSS (Economics) Examination

1. What is the Principle of Adaptive Fiscal Constraint? Why is this preferable to rigid numerical fiscal rules for a developing economy like Bangladesh? (12 marks)
2. Describe the functions of iBAS++ in Bangladesh's public financial management system. What are its main achievements and what limitations remain? (10 marks)
3. What are the coordination problems created by the dual-center structure of the Finance Division and the Planning Commission? How do these affect Annual Development Programme implementation? (12 marks)

Questions for MSS (Economics) Examination

1. Critically evaluate the institutional design of Bangladesh's budget system, including its constitutional foundation, its PFM legal framework, and its fiscal-monetary institutional interface. Drawing on public administration theory, identify the most important structural reforms needed to improve the system's performance. (30 marks)
2. Compare Bangladesh's approach to fiscal rules (absence of a statutory fiscal responsibility law) with the approaches of India (Fiscal Responsibility and Budget Management Act) and Brazil (Lei de Responsabilidade Fiscal). Which approach is most appropriate for Bangladesh, and why? (25 marks)

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CHAPTER FOUR: THEORIES OF PUBLIC EXPENDITURE, REVENUE, AND DEFICIT: RECONCEPTUALIZED FOR THE TWENTY-FIRST CENTURY

4.1 The Theory of Public Goods and Its Contemporary Extensions

The classical theory of public goods, developed by Paul Samuelson in his foundational 1954 paper, holds that public goods are characterized by non-rivalry (one person's consumption does not reduce the availability to others) and non-excludability (it is not practical to prevent anyone from consuming the good once it is provided). Classic examples include national defense, street lighting, and basic scientific knowledge. The market will systematically underprovide these goods because private firms cannot profit from them, creating a rationale for government provision funded by taxation.

This framework, while analytically powerful, requires substantial extension to account for the range of goods that contemporary states actually provide. Most of what governments spend money on does not fit neatly into the category of pure public goods.

Health services are technically excludable (hospitals can charge fees and deny care to non-payers) and in many settings rivalrous (a hospital bed occupied cannot accommodate another patient simultaneously). Education services are similarly excludable and rivalrous in practice. Yet both are almost universally provided by states as public services, on grounds that go beyond simple market failure theory.

The contemporary justification for public provision of health and education draws on multiple economic arguments beyond pure public goods theory. First, there are positive externalities: a vaccinated population protects unvaccinated people, so the social return to vaccination exceeds the private return, justifying public subsidy or provision. An educated worker creates productivity spillovers for colleagues and employers. Second, there are information asymmetries: patients cannot reliably evaluate the quality of medical care before receiving it, creating market failures that private provision without regulation cannot correct. Third, there are distributional arguments: if health and education are provided only at market prices, access will be determined by income, producing outcomes that most ethical frameworks regard as unjust.

A new framework relevant here is what this textbook terms the Social Infrastructure Continuum, which holds that public expenditure goods and services can be understood as lying along a continuum from pure public goods (national defense, basic statistical services, constitutional courts) through mixed goods with strong externality justifications (vaccines, basic education, sanitation) to quasi-private goods that may be publicly provided on equity grounds (higher education, secondary health care, housing support). The appropriate level of public provision, subsidy, and regulation varies along this continuum.

For Bangladesh's budget, the Social Infrastructure Continuum framework suggests that the current allocation pattern, which concentrates public health spending on urban curative care rather than rural preventive care, and which finances substantial higher education at public

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institutions that predominantly serve upper-income students, is not optimally calibrated along the continuum. The most social return per taka is likely to be found at the pure public good end (strengthening epidemiological surveillance, water quality monitoring, basic sanitation) and the strong externality middle (expanding reach of primary health care, improving early childhood education, universal primary immunization), not at the quasi-private end.

4.2 The Theory of Taxation: From Optimal Tax Theory to Behavioral Tax Design

The optimal taxation theory, associated with Frank Ramsey's 1927 work and subsequent developments by James Mirrlees, Peter Diamond, and others, seeks to identify the tax structure that minimizes economic distortion (or "deadweight loss") for a given revenue requirement, subject to distributional constraints. The key result of Ramsey taxation is that goods with less elastic demand should be taxed at higher rates, because taxing them creates less distortion. Mirrlees's optimal income tax theory showed that the relationship between marginal tax rates and income levels should be non-trivially shaped by the distribution of earning abilities in the population.

These theoretical results are analytically elegant but practically difficult to implement, particularly in developing countries with limited administrative capacity, large informal sectors, and complex compliance challenges. Bangladesh's actual tax system is the product not of optimal tax theory but of administrative pragmatism, political negotiation, revenue urgency, and historical accident.

The Bangladesh tax system as of FY2025-26 has the following basic structure. The National Board of Revenue collects taxes through three main streams: direct taxes (income tax and corporate tax), value added tax, and customs duties plus supplementary duties. The targeted NBR revenue for FY2025-26 is Tk 499,000 crore, of which VAT and supplementary duties are expected to contribute the largest share (approximately 37-40 percent of total NBR revenue), income and corporate taxes approximately 35 percent, and customs duties the remainder.

Several structural problems characterize this tax system. First, the tax-to-GDP ratio of approximately 7.4-8 percent is among the lowest in South Asia and well below the levels of comparator countries at Bangladesh's income level. Vietnam, at a similar level of per capita income a decade ago, had a tax-to-GDP ratio above 20 percent. The low ratio reflects a combination of factors: a large informal economy, weak compliance enforcement, extensive tax exemptions and incentives that erode the base, and under-investment in tax administration capacity.

Second, the tax structure is heavily weighted toward indirect taxes (VAT and customs), which are less progressive than direct taxes. A system that relies primarily on VAT, which takes the same percentage of consumption regardless of income, is by definition regressive in terms of the income share it claims from different income groups, since low-income households spend a larger proportion of their income on consumption. The CPD and other analysts have consistently noted that Bangladesh's tax system, while nominally containing progressive income tax rates, in practice generates most revenue from indirect taxes that fall disproportionately on lower-income households.

Third, the corporate income tax rate in Bangladesh (25 percent for publicly traded companies, 27.5 percent for non-publicly traded companies, and various special rates for specific sectors) creates incentives for tax avoidance through transfer pricing, profit shifting, and the use of tax holiday provisions that have been granted liberally to attract investment in specific sectors.

A new concept introduced here is Fiscal Metabolism: the rate at which an economy converts economic activity into government revenue, adjusted for the structural composition of the economy, the compliance capacity of the tax system, and the extent of tax expenditure commitments. Bangladesh's fiscal metabolism is weak: despite sustained GDP growth, the tax-to-GDP ratio has barely moved, suggesting that growth is occurring in sectors or in ways that are insulated from the tax system, either through informal sector expansion, tax holiday protection, or compliance failure.

Improving fiscal metabolism requires not simply raising nominal tax rates but fundamentally reforming the administrative, informational, and institutional infrastructure of tax collection. The IMF's 2023 program conditions included specific fiscal metabolism improvement targets, recognizing this as Bangladesh's most critical fiscal structural weakness.

The behavioral economics revolution in taxation, pioneered by scholars like Cass Sunstein, Richard Thaler, and Emmanuel Saez, offers insights that go beyond optimal tax theory. Behavioral tax design recognizes that taxpayer behavior is influenced by cognitive biases, social norms, information framing, and complexity aversion, as well as by classical economic incentives. Simplifying tax compliance procedures, providing personalized information about tax obligations, leveraging social norm appeals ("most businesses in your sector pay their taxes on time"), and using pre-populated returns are all behavioral interventions that have demonstrated effectiveness in increasing compliance in multiple country contexts.

Bangladesh's tax administration has begun exploring some of these approaches through its digitization program, but behavioral tax design remains largely underutilized relative to its potential, particularly in the context of expanding the base of direct taxpayers, which currently reaches only about 3.5 million actual tax filers in a country of nearly 170 million people.

4.3 The Theory of Public Debt: Sustainability, Burden, and the New Fiscal Arithmetic

The theory of public debt has been transformed in recent decades by a combination of practical experience and theoretical innovation. Traditional public finance theory held that government borrowing was problematic because it "crowded out" private investment by competing for scarce savings, imposed a burden on future generations who would have to repay the debt, and created inflationary pressure if financed by money creation.

These concerns remain valid in many contexts, but they require significant qualification. The "crowding out" argument depends on the assumption that savings are a fixed pool and that government borrowing necessarily reduces the amount available for private investment. In Keynesian and post-Keynesian frameworks, savings are not a fixed pool; they are generated by income, and government spending that increases income simultaneously increases the savings available to finance investment. Whether government borrowing crowds out private investment

is an empirical question that depends on the state of the economy, the monetary policy response, and the productivity of the public investment being financed.

The "burden on future generations" argument requires the qualification that if public debt finances productive investments that increase the future economy's output, future generations inherit both the debt and the assets it created. A country that borrows to build a Padma Bridge that generates returns (reduced transport costs, increased trade, higher regional output) for decades is not simply imposing a burden on future generations; it is making an intergenerational investment with returns that can finance repayment.

However, debt sustainability analysis must honestly account for two risks. First, not all public investment is productive. Projects that are initiated for political rather than economic reasons, that are poorly executed, or that face changing demand conditions may not generate the returns needed to justify their debt financing. Second, even if the investment is productive in domestic economic terms, external debt in foreign currency creates an additional dimension of risk: exchange rate movements can dramatically increase the domestic currency cost of debt service, as Bangladesh discovered when the taka depreciated significantly against the dollar in 2022-2023.

The IMF and World Bank's Debt Sustainability Analysis (DSA) framework provides a standard methodology for assessing whether a country's public debt is sustainable, defined as the ability to service debt without requiring extraordinary fiscal adjustment or external assistance. Bangladesh's DSA assessment has generally found it at "moderate risk" of debt distress, reflecting a debt-to-GDP ratio that is not extreme (around 35-40 percent of GDP) but is rising, combined with external debt service obligations that are increasing as grace periods on earlier loans expire.

A new doctrine relevant to this discussion is what this textbook terms the Doctrine of Temporal Fiscal Equity: the principle that fiscal policy should be designed to distribute benefits and burdens fairly not only across different groups in the current population but also across generations, ensuring that those who benefit from public investments bear a fair share of their cost, and that debt obligations contracted today do not so constrain future fiscal capacity as to deny future generations the ability to make their own investment choices.

Applied to Bangladesh, the Doctrine of Temporal Fiscal Equity raises specific concerns about the structure of recent loan contracts for major infrastructure projects, which have long grace periods followed by steep repayment schedules. Several large loans contracted in the 2015-2022 period are beginning to exit their grace periods, creating a "repayment cliff" that will significantly increase debt service obligations in the late 2020s. The FY2025-26 budget already reflects this: Tk 122,000 crore allocated for interest payments alone, representing 22 percent of the total revenue budget.

4.4 Functional Finance Theory and Its Application to Bangladesh

The functional finance doctrine, associated with Abba Lerner's work in the 1940s, argues that fiscal policy should be judged not by its conformity to accounting conventions (balancing the

budget, avoiding debt) but by its functional effects on the economy: whether it maintains full employment, avoids inflation, and supports the investment needed for long-term growth. From this perspective, deficits are neither good nor bad in principle; they are appropriate when the economy needs demand support and inappropriate when the economy is at full capacity.

Modern Monetary Theory (MMT), developed by economists including Warren Mosler, Stephanie Kelton, and Randy Wray, extends this functional finance logic in a more radical direction: for a sovereign currency issuer (a government that issues its own currency and has floating exchange rates), the effective constraint on spending is not revenue but the real productive capacity of the economy. Inflation, not insolvency, is the binding constraint for such governments.

These frameworks are interesting for thinking about Bangladesh but must be applied with significant qualifications. Bangladesh is not a sovereign currency issuer in the MMT sense: it has fixed or managed exchange rate arrangements, significant external debt in foreign currency, and an open trade and financial account that makes its monetary space more limited than the MMT framework assumes. The inflation constraint is very real, as Bangladesh's experience of 2022-2024 demonstrates: expansionary fiscal policy combined with monetary accommodation contributed to inflation exceeding 10 percent, with severe welfare consequences for low-income households who spent the largest share of their income on food.

Nevertheless, the functional finance critique of purely deficit-phobic budgeting has some relevance to Bangladesh's current situation. The IMF-supported fiscal consolidation program that constrains the FY2025-26 budget may produce fiscal stabilization metrics (lower deficit, lower borrowing) while compromising development investment in a way that slows the economy's growth trajectory, reducing the medium-term revenue base and making fiscal sustainability harder to achieve, not easier. This is the classic "fiscal contraction paradox," and it is a genuine risk that deserves honest analysis.

4.5 The Theory of Fiscal Federalism and Bangladesh's Centralized System

Fiscal federalism theory, associated with the work of Charles Tiebout, Wallace Oates, and more recent scholars like Jean Tirole and Roger Myerson, concerns the allocation of fiscal functions between central and subnational governments. The basic insight is that decentralized provision of local public goods allows better matching of services to local preferences, creates accountability through citizen mobility and local political competition, and generates information advantages from local knowledge.

Bangladesh is a highly centralized fiscal state. The central government controls the vast majority of tax revenue collection and determines the aggregate allocation of resources for local government through the block grant system. Upazila (sub-district) and union parishad (local council) levels receive transfers from the national budget but have extremely limited own-revenue generation capacity and correspondingly limited fiscal autonomy.

This centralization reflects historical and political factors: the unitary state structure inherited from both the British colonial period and the Pakistani administrative system, the dominant

political culture of centralized governance, the technical limitations of local government institutions, and the genuine coordination advantages of centralized management for national programs. But it creates significant accountability deficits at the local level. When citizens cannot clearly observe the connection between local taxation and local service provision, the political accountability mechanisms that fiscal federalism theory predicts are weakened.

The FY2025-26 budget allocates substantial resources to local government institutions through various transfer mechanisms, but the design of these transfers largely preserves central control over their use, limiting the fiscal autonomy that genuine federalism would provide. Bangladesh's digital government initiative, including the "Nagorik Sheba" (Citizen Service) program announced in the FY2025-26 budget, could, if effectively implemented, strengthen the informational accountability channels between local service delivery and citizen oversight, even without formal fiscal decentralization.

4.6 Exam Questions: Chapter Four

Questions for BEcon Examination

1. Explain the Social Infrastructure Continuum framework. Using three specific examples from Bangladesh's FY2025-26 budget, show how public expenditure items can be positioned on this continuum and what this positioning implies for the appropriate level of public provision. (20 marks)
2. What is Fiscal Metabolism? Why is Bangladesh's fiscal metabolism weak relative to its GDP growth rate? Identify three specific reform measures that could improve fiscal metabolism. (15 marks)
3. Explain the Doctrine of Temporal Fiscal Equity. How does the "repayment cliff" created by Bangladesh's infrastructure loans of 2015-2022 represent a potential violation of this doctrine? (12 marks)
4. What is the functional finance doctrine? Does it provide useful guidance for Bangladesh's fiscal policy in 2025-26? Explain the qualifications that apply. (10 marks)

Questions for BSS (Economics) Examination

1. Compare direct and indirect taxation in Bangladesh in terms of revenue importance and distributional effects. Is Bangladesh's current tax structure regressive? Support your answer with data. (15 marks)
2. Apply behavioral economics insights to identify three specific reforms to Bangladesh's tax administration that could improve compliance without changing tax rates. (10 marks)
3. How does fiscal federalism theory evaluate Bangladesh's highly centralized fiscal system? What are the advantages and disadvantages of centralization for Bangladesh's specific circumstances? (12 marks)

Questions for MSS (Economics) Examination

1. Critically evaluate Modern Monetary Theory as a guide for fiscal policy in a developing economy like Bangladesh. What insights does it offer? Where does it fail to apply? What

would MMT-informed fiscal policy look like in Bangladesh's context, and would it be advisable? (30 marks)

2. "Bangladesh's tax structure is a monument to political economy rather than optimal tax theory." Critically evaluate this statement using Mirrlees's optimal income tax theory, Ramsey's optimal commodity tax theory, and empirical data on Bangladesh's tax structure. (25 marks)

CHAPTER FIVE: THE MEDIUM TERM BUDGETARY FRAMEWORK: THEORY, IMPLEMENTATION, AND LESSONS

5.1 The Conceptual Architecture of the MTBF

The Medium Term Budgetary Framework (MTBF) represents the most significant systematic reform of Bangladesh's budget process in the post-independence period. To understand it properly requires understanding the problem it was designed to solve.

Traditional line-item budgeting, which Bangladesh used for the first three decades of its existence, has several well-documented deficiencies. It focuses on inputs (how much money is spent on salaries, equipment, buildings) rather than on outputs (what services are delivered) or outcomes (what changes in welfare result). It takes the previous year's allocation as its starting point, making incremental adjustments upward or downward, with no systematic analysis of whether the existing level of spending is producing worthwhile results or whether the composition of spending aligns with strategic priorities. It is entirely annual in horizon, ignoring the multi-year nature of most public investment commitments. And it separates "revenue budget" (recurrent spending) from "development budget" (capital and project spending) in ways that obscure the true cost of programs and create perverse incentives to classify spending to take advantage of different oversight regimes.

The MTBF addresses these deficiencies through several core design elements.

First, a three-year rolling fiscal framework: rather than setting targets only for the immediate fiscal year, the MTBF requires the development of a three-year Medium Term Macroeconomic Framework (MTMF) that projects GDP growth, inflation, the balance of payments, and key fiscal aggregates, and a Medium Term Fiscal Framework (MTFF) that translates these projections into resource ceilings for each ministry.

Second, the strategic planning link: each ministry is required to articulate its strategic objectives (the high-level goals it is trying to achieve), output indicators (measurable activities it will undertake), and outcome indicators (changes in welfare attributable to its activities), and to map its budget allocation to these strategic objectives. This is intended to shift the basis of budget negotiation from "how much did we get last year" to "what are we trying to achieve and how much does it cost."

Third, the budgetary circular process: the Finance Division issues two budget circulars annually. Budget Circular 1, issued early in the budget preparation cycle, communicates medium-term resource ceilings to ministries and requests their three-year strategic plans. Budget Circular 2 provides more detailed instructions for completing budget submissions within the ceilings established in Budget Circular 1.

Fourth, the performance review mechanism: ministries are expected to report on their performance against stated objectives and to use this performance information in subsequent budget requests. This creates an accountability loop that is entirely absent from traditional line-item budgeting.

5.2 Implementation Gaps and the Reality of MTBF in Bangladesh

The conceptual architecture of the MTBF is theoretically sound and has produced significant improvements in many of the countries where it has been successfully implemented. Bangladesh's experience, however, has been more complicated, and an honest assessment requires acknowledging both genuine achievements and significant gaps.

The achievements are real. Budget preparation processes are now more systematic, with all ministries submitting standard format budget requests that include at least nominal strategic objectives and output indicators. The three-year fiscal framework provides a valuable macroeconomic anchor. Gender budgeting, introduced as a requirement within the MTBF, has increased the visibility of gender impacts in budget allocation decisions across 44 ministries as of recent years. The iBAS++ system, a product of the PFM reform program that accompanied the MTBF, has improved budget data management enormously.

The gaps are equally real. The link between strategic planning and actual budget allocation remains largely formal. Ministries produce strategic plans that are not seriously evaluated in budget negotiations; the actual allocation decisions continue to be driven by historical precedent, political priorities, and negotiations between ministry officials and Finance Division staff, with strategic objectives playing a supporting role at best.

Performance monitoring under the MTBF is weak. Outcome data, particularly on the welfare impact of programs, is often unavailable, outdated, or unreliable. The challenge of measuring outcomes in public services is genuinely difficult (how do you measure the social outcome of a road rather than simply counting its physical completion?), but Bangladesh has invested insufficiently in the statistical infrastructure needed to make outcome monitoring meaningful.

The medium-term framework is frequently undermined by short-term political pressures. When the government decides to add new programs or projects in response to political priorities, these are inserted into the budget outside the strategic planning process, with resource ceilings revised to accommodate them. The integrity of the rolling three-year framework is thus regularly compromised.

Perhaps most fundamentally, the MTBF has not resolved the coordination problem between the Finance Division and the Planning Commission. The development budget, which flows through

the ADP and is managed primarily by the Planning Commission process, remains somewhat separate from the strategic planning logic of the MTBF. Projects in the ADP are appraised and approved through the Development Project Proposal (DPP) process, which has its own strategic and economic appraisal logic, but this process is not well-integrated with the MTBF strategic objective framework at the ministry level.

A new concept helpful in analyzing Bangladesh's MTBF experience is Institutional Isomorphism Without Substance: the process by which developing country governments adopt the formal structures of international best-practice fiscal institutions (three-year frameworks, strategic plans, performance indicators, gender budget reports) without the accompanying institutional substance (genuine political commitment to performance-based allocation, analytical capacity to evaluate strategic objectives, data systems to measure outcomes, accountability mechanisms to enforce consistency between plans and actions). The result is a set of documents that impress visiting international advisers without fundamentally changing the political economy of budget allocation.

5.3 The Annual Development Programme: Theory and Practice

The Annual Development Programme (ADP) is the instrument through which the Bangladesh government allocates resources for capital investment, project implementation, and development programs. It is presented alongside the main budget and operationally managed through the Planning Commission process. For FY2025-26, the ADP stands at Tk 230,000 crore, reduced from Tk 265,000 crore in the previous year, and includes 1,085 projects.

The theory of public investment justifies the ADP as a vehicle for financing investments that private markets will not adequately provide: infrastructure with high social returns but difficult-to-appropriate private returns, investments in human capital through public education and health institutions, and research and development expenditure with high positive externalities. Well-designed public investment programs can "crowd in" private investment by improving the infrastructure, institutions, and human capital that make private production more profitable.

The reality of Bangladesh's ADP has been characterized by several persistent problems that are well-documented in research by the CPD, IMED, the World Bank, and academic researchers.

First, the inclusion problem: the ADP consistently includes more projects than the annual resource envelope can adequately fund. The practice of including projects with token allocations (as few as Tk 1 lakh, enough to maintain a project's listing but not to make meaningful progress on its implementation) is a persistent feature. In FY2025-26, 45 projects (4.1 percent of total) received only token allocations. This practice is not financially rational; it reflects political pressures to include projects in the ADP as a signal of government intent, regardless of funding availability.

Second, the new project bias: there is a persistent preference among both political actors and ministry officials for initiating new projects over completing existing ones. New projects offer the opportunity for ribbon-cutting ceremonies, political patronage through contractor selection, and local visibility. Completing existing projects, particularly troubled ones with cost overruns

and schedule delays, is less politically rewarding. The result is an ADP overloaded with ongoing projects at various stages of completion, with insufficient resources to bring any given project to timely completion.

Third, the implementation capacity constraint: even when funds are allocated, the capacity of implementing agencies to actually spend them on project activities is often limited by procurement delays, contract management weaknesses, technical design problems, land acquisition difficulties, and coordination failures between agencies. This is the direct cause of the chronic shortfall between ADP allocation and ADP utilization, the ratio of actual spending to allocated budget.

Fourth, the economic appraisal quality problem: development projects in Bangladesh are supposed to be appraised using economic cost-benefit analysis, which estimates the social economic return to the investment compared to alternatives. In practice, the quality of economic appraisal varies enormously, and there is evidence that appraisals are sometimes conducted post-hoc, after the decision to proceed with a project has already been made on political grounds, producing "reverse-engineered" justifications rather than genuine analytical input into decision-making.

5.4 Gender Budgeting in Bangladesh: A New Assessment

Bangladesh introduced gender budgeting as a formal component of its budget process in FY2009-10, initially requiring a small number of ministries to analyze the gender impacts of their budget allocations and report on them. The initiative has expanded significantly; by the time of the FY2025-26 budget, 44 ministries and divisions were producing Gender Budget Reports.

The FY2025-26 budget introduced an important new dimension: for the first time, the national budget pledged institutional recognition for women's unpaid and unacknowledged caregiving and household work, acknowledging a contribution to national welfare that GDP accounting systematically ignores but that feminist economists have long documented as substantial.

The standard approach to gender budgeting categorizes budget expenditure into three tiers: expenditure directly targeted at women and girls, expenditure with significant gender dimensions, and general expenditure without specific gender focus. Analyzing the distribution of spending across these tiers reveals the extent to which the budget actively addresses gender inequality.

Bangladesh's gender budgeting exercise has produced real improvements in awareness of gender dimensions of fiscal decisions and has created institutional pressure for gender-responsive planning within ministries. However, critiques from feminist economists and gender policy advocates point to a fundamental limitation: gender budgeting in Bangladesh tends to count existing gender-targeted spending rather than transforming the overall budget framework toward genuine gender equity.

The most important gender dimension of the budget is not the programs explicitly targeted at women (which are important but limited in scale) but the overall design of public services: whether healthcare facilities are accessible to women in rural areas, whether school infrastructure and curriculum design enable girls to complete secondary education, whether social protection programs are designed around women's actual economic roles rather than idealized breadwinner family models, and whether public investment in infrastructure reduces the time burden of unpaid care work (for example, through rural water supply programs that reduce the distance women must walk to fetch water).

A new principle relevant here is the Principle of Structural Gender Fiscal Equity: the idea that gender-responsive budgeting is incomplete if it focuses only on the quantum of explicitly women-targeted spending and fails to analyze how the entire structure of public spending either reinforces or challenges the gendered distribution of economic opportunity and burden.

5.5 Exam Questions: Chapter Five

Questions for BEcon Examination

1. Explain the four core design elements of the Medium Term Budgetary Framework (MTBF). For each element, identify one specific way in which it has succeeded and one specific way in which it has failed in Bangladesh. (20 marks)
2. What is the "inclusion problem" in Bangladesh's Annual Development Programme? Why does it persist despite being well-documented? What reforms would address it? (15 marks)
3. What is Institutional Isomorphism Without Substance? Using the MTBF as your primary example, explain how this phenomenon manifests in Bangladesh's fiscal governance. (10 marks)
4. Explain the Principle of Structural Gender Fiscal Equity. Using Bangladesh's FY2025-26 budget, identify two areas where this principle is inadequately reflected. (12 marks)

Questions for BSS (Economics) Examination

1. What is the "new project bias" in Bangladesh's ADP? What are its causes and consequences? (12 marks)
2. How has Bangladesh's gender budgeting evolved since its introduction in FY2009-10? What are its main achievements and remaining limitations? (10 marks)
3. Compare the MTBF with traditional line-item budgeting. Why was the traditional system inadequate, and how effectively has the MTBF addressed its limitations in Bangladesh? (15 marks)

Questions for MSS (Economics) Examination

1. Drawing on the academic literature on public financial management reform in developing countries, critically evaluate Bangladesh's experience with the MTBF. Is Bangladesh's experience consistent with the broader pattern of MTBF adoption in developing countries? What lessons does it offer for PFM reform theory? (30 marks)

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2. Apply the theory of public investment to a critical assessment of Bangladesh's ADP management. How should an ideal public investment management system be designed, and how far does Bangladesh fall short of this ideal? What specific reforms, sequenced in what order, would be most likely to improve outcomes? (25 marks)

CHAPTER SIX: THE MACROECONOMIC FRAMEWORK OF BUDGETING: GDP, INFLATION, EXCHANGE RATES, AND THE BALANCE OF PAYMENTS

6.1 The Macroeconomic Foundations: Why the Budget Is Embedded in the Economy

A national budget does not operate in a vacuum. It is embedded in a macroeconomic system in which the key variables: GDP growth, inflation, the exchange rate, the current account of the balance of payments, foreign exchange reserves, private sector credit growth, and monetary policy settings, all interact with fiscal decisions in complex and sometimes counterintuitive ways. Understanding how the budget fits into this macroeconomic system is essential for evaluating whether any given budget is coherent, realistic, and sustainable.

The national income accounting identity, familiar from introductory economics, provides the basic framework: GDP (Y) = Private Consumption (C) + Private Investment (I) + Government Consumption (G) + Net Exports (X - M). The budget directly influences G (government spending) and indirectly influences C (through taxes that affect disposable income), I (through government investment crowding-in or crowding-out effects), and (X - M) (through trade policy and the exchange rate effects of fiscal policy).

But the accounting identity is a constraint, not a causal model. It tells us that these variables must sum to GDP by definition, but it does not tell us the causal pathways through which changes in one variable affect others. For those causal pathways, we need macroeconomic theory: Keynesian demand management theory for the short run, neoclassical growth theory for the long run, and open economy macroeconomics for the interaction with the external sector.

6.2 Bangladesh's GDP: Structure, Growth, and Its Fiscal Implications

Bangladesh's GDP structure has transformed dramatically since independence. Agriculture, which dominated the economy in 1971 (accounting for over 50 percent of GDP), now accounts for approximately 12-13 percent. Industry, led by the garment sector, accounts for approximately 35 percent. Services, including trade, transport, telecommunications, and financial services, account for the remainder.

This structural transformation has important fiscal implications. The agricultural sector is largely outside the formal tax system; agricultural income is constitutionally exempt from income tax below certain thresholds, and the smallholder nature of most agricultural production makes effective taxation logistically difficult. The growth of services, particularly informal services in sectors like retail trade, transportation, and construction, creates a large pool of economic activity that generates inadequate tax revenue. The formal sector, concentrated in the garment industry

and financial sector, bears a disproportionate share of the formal tax burden, creating both equity concerns and competitive disadvantages for formal enterprises relative to their informal competitors.

The GDP growth target for FY2025-26 is 5.5 percent, which is considered ambitious by most independent analysts given that actual growth in FY2024-25 was approximately 3.97 percent, the lowest since the COVID-19 pandemic. The IMF's forecast for Bangladesh is somewhat lower than the government's target. The CPD and other domestic research organizations have questioned whether the macroeconomic assumptions underlying the budget are consistent with each other and with realistic projections of the external environment.

A new concept relevant here is Fiscal-Growth Coherence: the degree to which the macroeconomic assumptions embedded in a budget (GDP growth, inflation, exchange rate, current account) are mutually consistent, grounded in realistic assessment of the economic environment, and align with the fiscal targets the budget sets. Low Fiscal-Growth Coherence means that the budget's fiscal targets can only be achieved if macroeconomic developments follow an optimistic path that independent analysis considers unlikely.

Bangladesh's FY2025-26 budget shows some tensions in Fiscal-Growth Coherence. Revenue targets (NBR target of Tk 499,000 crore, representing 7.6 percent above the revised target) assume growth in the formal economy and improved compliance that may be challenging to achieve if GDP growth underperforms the target. ADP utilization assumptions require implementation capacity improvements that have proven difficult to sustain. Private sector credit growth projections conflict with the high lending rates (14-16 percent) that prevail in the banking system, which the business community has consistently identified as a major obstacle.

6.3 Inflation: Its Fiscal Causes and Consequences

Bangladesh experienced a severe inflation episode from 2022 to 2025. Consumer price inflation, which had been relatively contained at 5-6 percent annually in the pre-COVID period, accelerated to above 9 percent in 2022, above 10 percent at times in 2023, and remained stubbornly above 8-9 percent through much of 2024, despite both fiscal and monetary tightening measures.

The causes of this inflation episode were multiple and interacting. External cost-push shocks (oil price increases following the Russia-Ukraine war, global food price spikes) played an initial role. The large depreciation of the taka against the dollar that occurred from 2022 onward significantly increased the cost of all imported goods and inputs, generating imported inflation. Monetary financing of the fiscal deficit, through Bangladesh Bank's net lending to the government, created excess demand pressure. Supply-side constraints in key food markets (rice, edible oil, onion) created price spikes that affected the food component of the consumer price index disproportionately, with severe welfare consequences for low-income households who spend 50-60 percent of their income on food.

The fiscal consequences of this inflation were severe in multiple dimensions. First, it eroded the real value of public sector wages and social protection transfers: a fixed nominal transfer that

buys the same basket of goods as it did before inflation is a real income cut for the recipient. Second, it increased the nominal cost of public procurement: government contracts for goods and services were negotiated at pre-inflation prices but had to be renegotiated upward, straining budget provisions. Third, it increased the nominal cost of fuel and fertilizer subsidies as international prices rose, creating large contingent fiscal liabilities that the government had to absorb. Fourth, it undermined the real value of NBR revenue collected from specific (fixed nominal amount) taxes rather than ad valorem (percentage of value) taxes.

The FY2025-26 budget targets inflation of 7 percent (some sources cite 6.5 percent), down from the elevated levels of 2022-2024. Independent analysts consider this achievable if monetary policy remains appropriately tight and international commodity prices remain relatively stable, but risky if external shocks recur.

6.4 The Exchange Rate, Foreign Exchange Reserves, and Budget Vulnerability

The relationship between the exchange rate and the budget is more direct and complex than is often acknowledged. For Bangladesh, with substantial external debt service obligations in US dollars, significant imports of fuel, fertilizer, capital goods, and raw materials, and a large remittance inflow in foreign currency, the exchange rate is a critical fiscal variable.

When the taka depreciates against the dollar, the taka-equivalent cost of servicing dollar-denominated external debt automatically increases, even if nothing else changes. The external debt service that was budgeted at a certain exchange rate requires more taka if the rate moves adversely. This is not a trivial consideration: Bangladesh's external debt service obligations are substantial and growing, and the depreciation of the taka from around Tk 85 per dollar in early 2022 to around Tk 110-117 per dollar by 2023-2025 significantly increased the taka cost of debt service.

Foreign exchange reserve adequacy also affects the budget in less direct ways. When reserves fall to concerning levels, the government faces pressure to reduce import-intensive spending (including capital goods imports needed for ADP projects), to limit fuel subsidies (requiring either higher domestic energy prices or fiscal burden), and to borrow at less favorable terms from international markets. All of these mechanisms were operative in Bangladesh's 2022-2024 crisis period.

A new concept here is Reserve-Fiscal Coupling: the degree to which a government's fiscal space is directly constrained by its foreign exchange reserve position. High Reserve-Fiscal Coupling, as Bangladesh experienced in 2022-2024, means that fiscal policy cannot be independently determined without considering the reserve implications of spending and borrowing decisions. This coupling is particularly tight for countries with significant import dependence, substantial external debt, and limited capital market access.

The FY2025-26 budget projects external borrowing of Tk 101,000 crore. The ability to access this borrowing at projected costs depends on continued IMF program compliance, which maintains Bangladesh's access to IMF resources and signals confidence to other international creditors, and on the state of global financial markets.

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6.5 Private Sector Credit Growth and the Crowding-Out Concern

The government's domestic borrowing program, which for FY2025-26 plans to raise Tk 125,000 crore from domestic sources, competes with private sector credit demand for the available pool of domestic savings. The crowding-out concern, that government borrowing pushes up interest rates and reduces the availability and affordability of credit for private businesses, is a legitimate worry in Bangladesh's current context.

Lending rates in Bangladesh's banking system stood at 14-16 percent in 2025, reflecting a combination of high policy rates maintained by Bangladesh Bank to combat inflation, credit risk pricing reflecting the banking sector's non-performing loan problem, and liquidity constraints in certain banks. At these rates, many small and medium enterprises find formal credit inaccessible, which constrains private investment and employment.

The government's domestic borrowing, which absorbs a significant share of bank deposits, contributes to this tight credit environment. Treasury bill and bond yields, which reflect the cost of government borrowing, set a floor below which banks are reluctant to lend to private borrowers (since they can earn a risk-free return by lending to the government). When government yields are high, private lending rates must be even higher to compensate for credit risk, further limiting private sector access.

A new principle here is the Principle of Fiscal-Credit Complementarity: the idea that sustainable fiscal policy is designed to avoid competing with the private sector for the resources it needs to invest, generate employment, and grow the tax base, recognizing that excessive government claims on domestic financial resources ultimately undermine the economic foundations from which fiscal revenues are drawn.

6.6 The Balance of Payments and Its Fiscal Dimensions

The current account of Bangladesh's balance of payments is shaped by the interaction of three major flows: export earnings (dominated by garment exports, which account for around 80-85 percent of merchandise export earnings), remittance inflows (Bangladesh is one of the world's largest recipients of workers' remittances, which in FY2024-25 reached approximately USD 26-27 billion), and import payments (dominated by fuel, food, cotton, machinery, and other industrial inputs).

Bangladesh's current account has been in deficit in recent years, reflecting import costs that exceed export earnings and require the balance to be covered by capital inflows (loans, foreign direct investment, portfolio investment) and drawdown of reserves. The size of this current account deficit, and the ability to finance it, directly affects the government's fiscal position through the channels described above: reserve adequacy, exchange rate, and the cost of external borrowing.

Remittances occupy a particularly important and somewhat paradoxical position in Bangladesh's fiscal economy. They are a massive source of foreign exchange, contributing significantly to reserve accumulation and exchange rate stability. They support household consumption for

millions of families, reducing pressure on social protection programs. They contribute to tax revenue indirectly, as recipient households spend on taxable goods and services.

But remittances also have fiscal complications. They are largely informal economic flows that are difficult to tax directly. They reduce the urgency of domestic labor market development if they substitute for rather than complement domestic job creation. And they create a form of economic dependence on migration that is vulnerable to political developments in destination countries (the Gulf states, Malaysia, etc.) and global economic cycles.

The fiscal policy question is how to leverage remittances more effectively for development purposes: creating financial instruments that channel remittance savings into productive investments, reducing the transaction cost of sending remittances to increase the formal channel share, and using remittance-supported household stability to extend financial services (insurance, credit, savings) to previously excluded populations.

6.7 Exam Questions: Chapter Six

Questions for BEcon Examination

1. What is Fiscal-Growth Coherence? Analyze the FY2025-26 budget's Fiscal-Growth Coherence, identifying at least two areas where the budget's macroeconomic assumptions appear inconsistent or overly optimistic. (20 marks)
2. Explain Reserve-Fiscal Coupling as experienced by Bangladesh in 2022-2024. How did the decline in foreign exchange reserves constrain fiscal policy during this period? (15 marks)
3. Describe the four ways in which Bangladesh's 2022-2025 inflation episode had direct fiscal consequences. For each consequence, identify a budget item from FY2023-24 or FY2024-25 that was affected. (15 marks)

Questions for BSS (Economics) Examination

1. How does the exchange rate affect Bangladesh's budget? Give two specific examples of how taka depreciation against the dollar in 2022-2023 affected fiscal outcomes. (12 marks)
2. Explain the Principle of Fiscal-Credit Complementarity. Does Bangladesh's FY2025-26 domestic borrowing program violate this principle? (10 marks)
3. What role do remittances play in Bangladesh's balance of payments and fiscal position? What are the fiscal policy opportunities and risks associated with this large remittance dependence? (10 marks)

Questions for MSS (Economics) Examination

1. Using the national income accounting framework and open economy macroeconomic theory, construct a comprehensive model of how the Bangladesh budget interacts with the macroeconomic system. Apply this model to analyze the FY2025-26 budget, identifying the major macroeconomic risks and opportunities. (30 marks)

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2. Bangladesh's inflation episode of 2022-2025 had multiple mutually reinforcing causes: external cost-push shocks, exchange rate depreciation, monetary financing of the fiscal deficit, and food market supply constraints. Design a comprehensive fiscal and monetary policy response that addresses all four causes simultaneously without violating IMF program conditions. (25 marks)

CHAPTER SEVEN: THE POLITICAL ECONOMY OF BANGLADESH'S BUDGET

7.1 Who Makes the Budget? Power, Process, and Actors

The formal budget process described in budget circulars and official documents presents a rational, hierarchical process: line ministries submit requests, the Finance Division reviews and sets ceilings, the Planning Commission reviews ADP requests, the cabinet approves, and parliament enacts. This formal description captures important aspects of reality but omits the informal power dynamics that shape what actually ends up in the budget.

The key actors in Bangladesh's budget process can be organized into several categories.

The Finance Ministry leadership, including the Finance Minister (or Finance Adviser in the interim government period), the Finance Secretary, and senior officials of the Finance Division, occupies the central position of formal authority. They set macroeconomic assumptions, determine aggregate revenue targets, negotiate resource ceilings with line ministries, and have final say over the composition of the budget document.

Line ministry officials are the primary advocates for their sectors' spending claims. Senior officials of the Ministry of Health, Education, Agriculture, Social Welfare, and others invest significant effort in building the case for increased allocations, developing project proposals, and cultivating relationships with Finance Division officials and politically influential actors who might support their requests. The quality of this advocacy, and the quality of the underlying programmatic logic, varies enormously across ministries.

The Planning Commission and its member-secretaries for different development sectors play an important but often subordinate role. Their formal authority in appraising and approving ADP projects is real, but their budget allocation influence is constrained by the Finance Division's control over aggregate resource envelopes.

The political leadership, including the Prime Minister's Office (or in the current period, the Chief Adviser's office) plays a pivotal role in determining the overall political direction of the budget: which sectors are politically prioritized, which constituencies must be satisfied through targeted allocations, and which politically sensitive issues (energy pricing, social protection rates, public sector wages) are handled in which way.

International financial institutions, particularly the IMF and World Bank, exercise indirect but significant influence through their policy dialogue, technical assistance, conditionalities, and the

lending relationships that Bangladesh's government values for both fiscal and signaling reasons. The IMF's ECF program of 2023 has effectively imposed a set of fiscal targets that constrain the government's choices in a way that is analogous to constitutional fiscal rules, despite being contractual rather than domestic constitutional in nature.

Civil society organizations and think tanks, particularly the Centre for Policy Dialogue (CPD), Transparency International Bangladesh, and others, engage in post-budget analysis and pre-budget consultation processes. Their influence on actual budget decisions is limited but not negligible: persistent analysis documenting specific allocation patterns can create reputational pressure for change over time.

Business associations, including the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and sector-specific organizations like the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), actively engage in pre-budget consultations and lobbying for specific tax and trade policy decisions. Their influence is particularly strong on VAT and customs duty matters, where specific rate changes can have large effects on particular industries.

7.2 The Electoral Budget Cycle: Theory and Evidence from Bangladesh

The political business cycle theory, associated with William Nordhaus's foundational work and subsequently developed by Alberto Alesina and others, predicts that incumbent governments will engage in expansionary fiscal policy before elections to boost economic conditions and their re-election prospects, followed by fiscal tightening after elections to restore sustainability. The partisan political cycle theory, associated with Alesina's work, further predicts that left-wing governments will prioritize spending on social services and employment while right-wing governments will prioritize fiscal consolidation and business-friendly tax policy.

Bangladesh's budget history provides interesting but impure evidence for these theories, because the political system has not operated under consistent competitive electoral conditions throughout the post-independence period. Military rule, periods of single-party dominance, and elections of contested fairness complicate the analysis.

Nevertheless, some patterns are consistent with political cycle theory. Pre-election budgets under the Awami League government in 2013-14 (before the contested January 2014 election), 2017-18 (before the December 2018 election), and 2022-23 (before the January 2024 election) showed expansionary tendencies: wage increases for public sector employees, expanded social protection transfers, and ambitious development spending that challenged implementation capacity.

The July 2024 uprising and the installation of the interim government broke the electoral cycle logic: the interim government, lacking an electoral mandate to protect, was positioned to make the difficult fiscal consolidation decisions that elected governments with electoral incentives had deferred. The FY2025-26 budget's contractionary stance, reducing total budget size and sharply cutting the ADP, is arguably only possible in the post-uprising political context.

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7.3 Bureaucratic Politics and Budget Allocation: The Niskanen Model in Bangladesh

The bureaucratic politics tradition in public choice theory, most systematically developed by William Niskanen's budget-maximizing bureaucrat model, argues that public sector bureaus are controlled by self-interested officials who pursue budget size as a proxy for power, prestige, and career advancement. The result is systematic over-production of public services and over-growth of government spending.

Niskanen's model is an extreme version of a real phenomenon. Senior government officials do have institutional interests in maintaining or expanding their ministry's budget, and these interests shape their behavior in budget negotiations. But the model is too simple for Bangladesh's context in several ways.

First, it assumes bureaus seek to maximize their budgets overall, but in Bangladesh the relevant competition is often not between the public and private sectors but between different departments within the government and different items within a department's budget. Officials may seek to expand certain types of spending (particularly capital projects with associated procurement opportunities) while accepting cuts to others (recurrent maintenance spending that generates no patronage).

Second, the model ignores the role of front-line service providers (teachers, doctors, agricultural extension workers) whose behavior is shaped not just by bureaucratic incentives but by professional norms, working conditions, and the practical realities of service delivery in often under-resourced settings. Understanding why public services underperform in Bangladesh requires understanding these street-level implementation dynamics, not just the budget-maximizing behavior of senior officials.

A new doctrine proposed here is the Doctrine of Multi-Level Fiscal Incentive Alignment: the idea that effective public spending requires aligning the incentives of budget allocators (Finance Division officials), budget advocates (line ministry officials), program managers (department heads), and front-line service providers at every level of the system, not just ensuring that the top-level allocation decision is correct. Budget reforms that focus only on the allocation level, without addressing the incentive structures at implementation levels, will consistently underperform.

7.4 Transparency, Accountability, and Civil Society: The Open Budget Survey and Bangladesh

The International Budget Partnership conducts the Open Budget Survey (OBS), a biennial assessment of budget transparency, participation, and oversight across more than 100 countries. The survey evaluates the quality and availability of budget documentation, the strength of formal oversight institutions (legislature and audit institution), and the robustness of mechanisms for public participation in the budget process.

Bangladesh has participated in the OBS and its scores provide a useful benchmark. In recent surveys, Bangladesh has received middling scores: better than many low-income countries in the

basic availability of budget documentation, but weaker in the areas of supreme audit institution oversight (the CAG's reports are produced but not widely acted upon) and public participation (formal consultation processes exist but their influence on actual decisions is limited).

Several specific transparency gaps are worth noting. First, tax expenditure reporting: Bangladesh does not systematically publish comprehensive accounts of the revenue foregone through tax exemptions, incentives, and holidays. Given that tax expenditures in Bangladesh are substantial (the CPD has estimated they run to several tens of thousands of crore annually), this gap significantly understates the true fiscal cost of the government's tax policy choices.

Second, state-owned enterprise (SOE) fiscal reporting: Bangladesh has a large SOE sector, including state-owned banks, energy utilities, and industrial enterprises, whose financial performance has significant implicit fiscal implications (in the form of subsidies, government guarantees, and potential recapitalization needs). The quality and accessibility of consolidated SOE fiscal information has improved with the SABRE+ system, which now covers 101 organizations, but remains incomplete.

Third, off-budget financing: some public investment is financed through mechanisms that do not appear in the main budget, including direct borrowing by public enterprises from the banking system under government guarantee. These off-budget liabilities are fiscal risks that official budget documents do not adequately reflect.

A new philosophy relevant here is what this textbook terms the Philosophy of Fiscal Sunlight: the normative stance that every dimension of the state's fiscal activity, including not only what it spends and collects formally but also what it forfeits in tax expenditures, what it guarantees through contingent liabilities, and what its state enterprises owe and are owed, should be visible to citizens, legislators, and civil society as a matter of democratic right and governance integrity. Fiscal Sunlight is not merely good management; it is a condition of genuine democratic sovereignty.

7.5 The Political Economy of Tax Compliance: Why Bangladeshis Don't Pay Taxes

Tax compliance in Bangladesh is structurally low. With approximately 3.5 million actual taxpayers in a country of 170 million people, and a GDP of approximately USD 450-500 billion, the implicit assumption must be that the vast majority of economic activity, including that of millions of formally registered businesses, occurs outside effective tax compliance.

Several distinct factors explain this pattern, and understanding them requires moving beyond simple "tax evasion is illegal and irrational" framework to a more nuanced political economy account.

First, there is the trust deficit. Many Bangladeshi citizens and businesses do not trust that taxes paid will be used honestly and effectively. The perception of corruption in the public sector, of contracting awards based on political connection rather than merit, and of public services of poor quality despite significant public spending, undermines the social contract basis for voluntary

compliance. "Why should I pay taxes when the money is stolen?" is a rational response to a fiscal system perceived as predatory rather than beneficial.

Second, there is the complexity and compliance cost problem. Bangladesh's tax system, particularly the VAT system, involves complex procedures, multiple rates, extensive record-keeping requirements, and interactions with tax officials that create both genuine difficulty and opportunities for rent-seeking. Small businesses often find that the cost of formal compliance (accountant fees, time spent on filings, risks of disputes with tax inspectors) exceeds their perceived benefit of formal status.

Third, there is the selectivity problem. When only some taxpayers are actually enforced against, while others with equivalent incomes operate informally without consequence, compliance becomes a collective action problem. Paying taxes when competitors don't becomes a competitive disadvantage.

Fourth, there is the capacity problem. The NBR has limited audit capability, limited access to third-party data that would enable cross-checking of reported incomes, and limited digital infrastructure for matching transactions across the economy. The introduction of e-return filing, expanded use of tax identification numbers (TINs) linked to various transactions, and data-sharing with the Bangladesh Bank and other agencies are improving this situation but progress is slow.

The FY2025-26 budget's emphasis on revenue mobilization, including the IMF condition of raising the tax-to-GDP ratio toward 9.5 percent over the program period, requires simultaneously addressing all four factors. Administrative enforcement alone is insufficient; it must be accompanied by simplification, trust-building, and coordinated data modernization.

7.6 Controversies and Case Studies in Bangladesh's Budget

Case Study 7.6.1: The Mega-Project Financing Controversy

The rapid expansion of Bangladesh's mega-project portfolio in the 2015-2023 period, including the Padma Multipurpose Bridge, the Dhaka Metro Rail (MRT Line 6), the Rooppur Nuclear Power Plant, the Karnaphuli Tunnel, and various highway and railway projects, generated significant controversy on multiple dimensions.

Fiscal critics argued that the pace of investment commitment exceeded Bangladesh's absorption capacity, creating large capital-intensive projects with long gestation periods that tied up fiscal resources for decades. Economic critics questioned the sequencing of investment, arguing that some projects had inadequate demand to justify their costs at the time of initiation. Governance critics raised concerns about procurement processes, project cost escalations, and the terms of loan agreements that were not subject to adequate parliamentary scrutiny.

The Rooppur Nuclear Power Plant, financed primarily through a Russian loan agreement covering approximately USD 12.65 billion, represents the largest single investment commitment in Bangladesh's history. The project was approximately 80 percent complete by 2025 and is

scheduled to begin operations, making the FY2025-26 ADP allocation for it defensible on completion grounds. However, the long-term fiscal implications, including Russian loan repayment, fuel supply costs, and operational subsidies if electricity from the plant is priced below market rates, represent significant multi-decade fiscal commitments.

Case Study 7.6.2: The Banking Sector Crisis and Its Fiscal Implications

Bangladesh's banking sector entered a period of acute stress from approximately 2022 onward, characterized by high non-performing loans (NPLs), governance failures at several state-owned banks including Sonali Bank and Janata Bank, and liquidity problems at private sector banks that had extended large exposures to politically connected borrowers.

The fiscal implications of the banking crisis are substantial. State-owned banks periodically require government recapitalization when their capital falls below regulatory minimums due to NPL write-offs. These recapitalizations represent direct fiscal costs, drawing on budget resources that could otherwise be allocated to productive public investment or social services. The total recapitalization cost to the government over the decade prior to 2024 has been estimated by various sources at several tens of thousands of crore.

The banking sector's NPL problem also has indirect fiscal implications through its effect on credit availability and economic growth, the monetary-fiscal interface discussed in Chapter Three, and the sustainability of the government's domestic borrowing program, which relies on the banking system's willingness and capacity to purchase government securities.

Case Study 7.6.3: The July Mass Uprising and Fiscal Governance Accountability

The July 2024 uprising, which began as a student movement against the 2018 quota system for civil service recruitment and expanded into a mass political movement that resulted in Prime Minister Hasina's departure and the installation of Professor Yunus's interim government, had a profound fiscal governance dimension that is insufficiently appreciated in standard political analyses.

The uprising's participants articulated, alongside specific demands about quotas, broader frustrations with economic inequality, corruption, youth unemployment, and the perception that the benefits of Bangladesh's remarkable growth had been captured by a politically connected elite. These economic grievances were directly connected to fiscal governance: to the tax system that failed to redistribute wealth adequately, to the public service system that failed to deliver quality outcomes despite increasing budget allocations, to the public enterprise governance system that enabled rent extraction, and to the contracting system in public investment that enriched connected contractors at public expense.

The interim government's initial fiscal actions, including investigations into procurement irregularities in major infrastructure projects, banking sector governance reforms, and the FY2025-26 budget's emphasis on realism and accountability rather than political ambition, reflected an attempt to respond to these fiscal governance grievances. Whether this recalibration

produces durable institutional changes or represents a temporary adjustment followed by a return to previous patterns will be one of the defining questions of Bangladesh's next fiscal decade.

7.7 Exam Questions: Chapter Seven

Questions for BEcon Examination

1. Identify and describe the six categories of actors in Bangladesh's budget-making process. For each category, explain what kind of influence they exercise and what their primary objectives are. (20 marks)
2. What is the Doctrine of Multi-Level Fiscal Incentive Alignment? Using the example of Bangladesh's primary healthcare system, explain why focusing only on budget allocation decisions without addressing incentive alignment at implementation levels produces poor outcomes. (15 marks)
3. Explain the Philosophy of Fiscal Sunlight. Identify three specific areas in Bangladesh's budget where fiscal sunlight is currently inadequate. (12 marks)
4. How did the July 2024 uprising reflect fiscal governance failures? What fiscal reforms were the uprising's participants implicitly demanding? (10 marks)

Questions for BSS (Economics) Examination

1. Apply William Nordhaus's political business cycle theory to Bangladesh's budget history. Provide two specific examples from Bangladesh's budget record that are consistent with this theory. (12 marks)
2. Why is tax compliance structurally low in Bangladesh? Identify four distinct causes and for each cause, suggest a specific policy intervention. (15 marks)
3. What does the Open Budget Survey reveal about Bangladesh's fiscal transparency? Identify the most significant transparency gaps and their consequences for accountability. (10 marks)

Questions for MSS (Economics) Examination

1. Develop a comprehensive political economy model of Bangladesh's budget process, drawing on public choice theory, bureaucratic politics theory, and the literature on electoral cycles. Apply this model to explain three specific features of Bangladesh's FY2025-26 budget that cannot be explained by technical budget theory alone. (30 marks)
2. The Rooppur Nuclear Power Plant and the banking sector crisis represent very different categories of fiscal risk. Critically analyze both risks, their origins in Bangladesh's fiscal governance system, and what institutional reforms would have prevented them. (25 marks)

CHAPTER EIGHT: REVENUE ADMINISTRATION, TAX POLICY, AND FISCAL CAPACITY BUILDING

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8.1 The National Board of Revenue: Structure and Reform

The National Board of Revenue (NBR) was established in 1972 and is the apex body responsible for revenue mobilization in Bangladesh. It administers three major revenue streams: income and corporate taxes, value added tax and supplementary duties, and customs and import duties. As of FY2025-26, the NBR is targeted to collect Tk 499,000 crore, representing the overwhelming majority (about 88 percent) of total government revenue.

The NBR is organized into three distinct wings: income tax, VAT, and customs, each with its own administrative hierarchy, field offices, and cadre of officers. This tripartite structure has both administrative logic and coordination disadvantages. Large taxpayers and large trading entities interact with all three wings, but the integrated taxpayer perspective that would best serve both compliance and service quality requires coordination mechanisms that have historically been weak.

A major institutional challenge for the NBR is the co-existence of a formal tax administration cadre, the Tax Cadre, with a large supporting workforce of inspectors and constables whose career incentives and accountability structures are quite different. The formal cadre, recruited through the Bangladesh Civil Service examination, is relatively educated and professionally trained. The inspection workforce has historically been a source of both genuine compliance enforcement and corrupt rent-seeking, extracting informal payments from businesses in exchange for favorable treatment.

The NBR's recent modernization efforts, supported by the IMF's program conditions, include: the introduction of e-filing systems for income tax returns, which had approximately 3 million registered users by 2025; the expansion of automated customs declaration processing (ASYCUDA World) at major ports; the implementation of electronic VAT return filing; and the launch of centralized taxpayer identification number (TIN) registration linked to national identity cards.

These digital reforms are genuinely important. They reduce the discretionary interface between taxpayers and tax officials, which is the primary channel of corrupt rent-seeking. They generate data that enables more systematic risk-based audit approaches. They reduce compliance costs for larger, more organized taxpayers who can use digital platforms effectively.

However, digital modernization alone will not resolve Bangladesh's revenue problem. The majority of the compliance gap is in small and medium enterprises, agricultural income, informal sector activity, and undisclosed capital gains, all of which require enforcement strategies that go beyond digital filing systems.

8.2 The VAT System: Architecture, Reforms, and Controversies

Bangladesh's VAT system, introduced in 1991 and significantly reformed (or attempted to be reformed) through the new VAT and Supplementary Duty Act of 2012 (which was eventually implemented in modified form in 2019), is the largest single source of government revenue.

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The VAT system taxes the value added at each stage of production and distribution, with the final consumer bearing the economic burden. Businesses collect VAT from their customers, deduct the VAT they paid on their own purchases, and remit the difference to the NBR. This input tax credit mechanism is the defining feature of a proper VAT and distinguishes it from a turnover tax.

Bangladesh's VAT system has historically deviated from VAT orthodoxy in important ways. The multiple rate structure, including zero percent, 5 percent, 7.5 percent, 10 percent, and 15 percent rates at different points in the consumption chain, creates complexity and compliance challenges. Extensive exemptions for agricultural products, basic foodstuffs, and many services reduce the VAT base significantly. The treatment of small traders and producers through a truncated tax system (with simplified compliance procedures but without full input tax credit) creates economic distortions at the boundary between the simplified and standard systems.

The FY2025-26 budget made some adjustments to the VAT structure, including extending VAT exemptions for the pharmaceutical raw material (API) production stage until 2030 and making targeted adjustments to supplementary duty rates on various imported goods. Supplementary duty rates on tobacco products were increased (cigarette paper from 150 percent to 300 percent, tobacco from 60 percent to 100 percent), a health-positive fiscal measure that simultaneously increases revenue and reduces tobacco consumption.

The CPD's analysis of the FY2025-26 budget raised concerns that the proposed changes in personal income tax structure and the tariff rationalizations would, in aggregate, hurt low and middle-income families who are already experiencing erosion of purchasing power through inflation. This critique reflects the broader distributional concern about Bangladesh's tax system: reforms that are individually justifiable on efficiency grounds may have regressive distributional effects that require offsetting measures in social spending.

8.3 Income Tax and Corporate Tax: Structure and Reform Needs

Bangladesh's personal income tax structure is nominally progressive, with rates ranging from zero (on income below the tax-free threshold, set at Tk 350,000 per year as of FY2025-26) to 25 percent on income above Tk 1.6 million, with intermediate rates at 5, 10, 15, 20, and 25 percent. The corporate tax rate is 25 percent for publicly traded companies and 27.5 percent for other companies, with lower rates for companies in special economic zones, IT sectors, and other incentive categories.

In practice, the effective tax rate on corporate income is considerably lower than the nominal rate, because of the extensive use of tax holiday provisions, investment allowances, accelerated depreciation, and the general prevalence of transfer pricing arrangements in multi-national and large domestic corporate groups that shift taxable income to lower-tax jurisdictions or entities.

The number of actual income taxpayers is a critical metric for understanding Bangladesh's fiscal capacity. With approximately 3.5 million TIN holders and far fewer actual filers, in a labor force of approximately 70 million and a formal sector that employs perhaps 20-25 million workers, the effective coverage of the personal income tax system is remarkably narrow. Expanding this

coverage through third-party information reporting (requiring employers, financial institutions, and property registrars to report transactions linked to TINs) is both technically feasible and potentially very revenue-productive.

A new principle is the Principle of Fiscal Widening Before Deepening: the idea that developing countries with narrow tax bases should prioritize expanding the coverage of the tax system (bringing more taxpayers and activities into the formal system) before focusing primarily on increasing rates or intensity of taxation on those already in the system. Bangladesh has historically focused too much on the already-compliant formal sector and too little on the vast informal sector.

8.4 Tax Expenditures: The Hidden Budget

Tax expenditures are defined in this textbook as revenue foregone by the government as a result of provisions in the tax law that deviate from a standard tax structure, including exemptions, deductions, credits, preferential rates, and deferrals. They are described as "hidden budget" because they represent public resources allocated to specific activities or groups (the same as expenditure subsidies) but do so without appearing as line items in the expenditure budget.

Bangladesh's tax expenditures are large and poorly documented. Estimates by the CPD and IMF-supported studies suggest that tax holidays and exemptions in the corporate tax system, preferential VAT treatment for numerous sectors, and customs duty concessions collectively amount to several tens of thousands of crore annually, potentially equivalent to a significant fraction of the formal NBR revenue collection.

Tax expenditures are not inherently bad policy. They can efficiently promote specific activities with positive externalities (R&D investment, export promotion, employment in disadvantaged regions) without requiring direct government expenditure. But they have several systemic problems.

First, they are often poorly evaluated: once established, tax holiday provisions tend to remain in place indefinitely because removing them creates political opposition from beneficiaries, even if independent analysis would suggest the incentive is no longer needed or never worked as intended.

Second, they are regressive in distribution: tax exemptions primarily benefit those who would otherwise have paid the most tax, who are generally the wealthier individuals and larger businesses.

Third, they undermine tax system coherence: extensive exemptions create a patchwork of special rules that increases complexity, creates opportunities for abuse, and erodes the broadbase, low-rate principle that optimal tax theory recommends.

The FY2025-26 budget's tariff rationalizations, which aim to make the tariff structure "more transparent for business people" and "reduce customs disputes," represent steps toward reducing the complexity of tax expenditure regimes in the customs area. But comprehensive tax

expenditure reform, requiring a systematic review and rationalization of all tax expenditures across income tax, VAT, and customs, remains a major unfinished agenda.

8.5 New Revenue Frontiers: Digital Economy Taxation, Carbon Tax, and Wealth Tax

As Bangladesh's economy evolves, new revenue frontiers emerge that the existing tax system is poorly designed to capture.

The digital economy presents a significant challenge for tax systems globally. When companies provide digital services to Bangladeshi consumers and businesses from overseas, the traditional rules of tax jurisdiction, which are based on physical presence in a country, fail to capture their economic activity and profit. The OECD/G20 Base Erosion and Profit Shifting (BEPS) framework and its Pillar One and Pillar Two proposals for international tax reform are attempting to address this globally, but implementation in developing countries like Bangladesh requires specific adaptations.

Bangladesh has taken initial steps through the introduction of VAT on digital services provided by non-resident suppliers to Bangladeshi consumers, requiring major platform companies to register and collect VAT. But the broader challenge of capturing corporate income tax from digital economy activities remains largely unresolved.

Carbon taxation, which imposes a price on greenhouse gas emissions to create economic incentives for emission reduction and simultaneously generate revenue, is increasingly being adopted globally. Bangladesh, as a highly climate-vulnerable country, has a strong interest in both global carbon pricing (to incentivize emission reduction by major emitting countries) and domestic carbon pricing (to steer its own economy toward lower-emission growth pathways). The revenue from a carbon tax could be used to fund climate adaptation investment, reduce other distorting taxes, or provide dividend transfers to low-income households to offset the regressive distributional effects of energy price increases.

A wealth tax on large accumulated assets (net wealth above a substantial threshold) is frequently proposed as a revenue source that would reduce inequality while raising revenue from those with the greatest ability to pay. Bangladesh's experience with a wealth tax has been limited, and enforcement challenges, particularly in valuing illiquid assets like land and businesses, are genuine. But the distributional case for some form of wealth or property taxation in a country with extremely high wealth concentration is strong.

8.6 The Education Fiscal Paradox: Spending More, Getting Less

Bangladesh's investment in education through the national budget represents one of the most important and most frustrating fiscal stories of the past two decades. The numbers are significant: as of FY2025-26, education receives one of the larger nominal allocations in the budget. Yet Bangladesh's education budget as a percentage of GDP remains at approximately 1.72 percent, well below the UNESCO-recommended minimum of 4-6 percent, and learning outcomes, as measured by national assessments and international standardized test participation, remain deeply inadequate.

This paradox, spending a non-trivial nominal amount but achieving poor outcomes per taka spent, is the Education Fiscal Paradox, and it is explained by a combination of factors.

First, a large share of the education budget is consumed by teacher salaries and allowances, which is not inherently problematic if teachers are actually present and teaching effectively. But Bangladesh's teacher absenteeism rate in primary and secondary schools has been documented at levels that represent a significant wastage of the wage bill: money flowing to teachers who are absent or not engaged in effective instruction.

Second, public education infrastructure investment has been largely input-focused: building classrooms, providing textbooks, supplying computers, without sufficient attention to whether these inputs are being effectively used. A school with new furniture but no training for teachers on how to use it effectively, or with computers but no internet connection and no curriculum integration, produces no improvement in learning outcomes.

Third, the education allocation's composition between primary, secondary, and higher education does not reflect social rates of return evidence. Economic research consistently finds that the social rate of return to primary education in low-income countries is higher than secondary, which is higher than higher education. Yet Bangladesh's public higher education system (universities) receives substantial per-student public subsidy that primarily benefits middle and upper-middle income students, while primary education is chronically underfunded relative to the scale of the learning crisis.

The FY2025-26 budget's digital education initiative, with Tk 30,020 crore (3.8 percent of total budget) allocated to digital infrastructure including AI literacy and 5G rollout, raises important questions about whether this is the highest-priority education investment. AI literacy and digital skills are valuable, but their benefits accrue primarily to urban populations with prior educational foundation, while millions of rural students still lack basic literacy and numeracy.

8.7 The Public Health Budget: A New Assessment Framework

Public health investment through the budget is one of the most economically significant fiscal decisions a government makes, because health outcomes directly determine labor productivity, human capital formation, and the demographic dividend. A population burdened by preventable illness is a population that cannot fully contribute to economic growth, and a state that fails to invest adequately in preventive health is paying very high prices later in curative care and in lost economic output.

Bangladesh's public health record since independence is genuinely remarkable in historical perspective. Life expectancy at birth, which stood at approximately 47 years in 1971, had reached approximately 73 years by 2023, one of the most dramatic improvements in any country over any comparable period. Maternal mortality, infant mortality, and child mortality have all fallen dramatically. Immunization coverage has reached near-universal levels. These achievements reflect the interaction of public health programs (particularly the government's extensive immunization and family planning programs), NGO-delivered health services

(particularly through BRAC and other organizations), rising incomes, improved nutrition, and better access to information.

However, the public health system faces severe structural challenges. Health spending as a share of GDP remains at approximately 2.3 percent, well below the WHO's recommended minimum of 5 percent. Out-of-pocket health expenditure, the proportion of health costs paid directly by patients rather than through insurance or public provision, is among the highest in Asia, estimated at around 68-74 percent of total health expenditure. This "catastrophic health expenditure" pattern forces households into poverty when they face major illness, wiping out years of accumulated savings and productive assets.

A new concept introduced here is the Health Fiscal Adequacy Index: a composite measure of the extent to which a government's health budget is sufficient to provide comprehensive, accessible, and quality health services to the entire population, weighted by the vulnerability of different population segments to health service gaps. Bangladesh's Health Fiscal Adequacy Index is low, reflecting both the inadequate total quantum of health spending and its poor distribution: concentrated in urban curative care facilities that serve relatively affluent populations, rather than in rural preventive care that could reach the most vulnerable.

The FY2025-26 budget's health allocation, while nominally increased, remains below what any serious analysis of Bangladesh's health needs would recommend. The interim government's expression of "special attention" to health requires substantially more than marginal nominal increases; it requires a fundamental rethinking of how the health budget is structured, what it aims to achieve, and how outcomes will be measured and held accountable.

8.8 Exam Questions: Chapter Eight

Questions for BEcon Examination

1. What is the Principle of Fiscal Widening Before Deepening? Apply it to analyze Bangladesh's income tax system. What specific measures would widen the tax base most effectively? (15 marks)
2. Explain what tax expenditures are and why they represent a "hidden budget." Identify three major categories of tax expenditure in Bangladesh and assess whether each is fiscally justified. (20 marks)
3. What is the Education Fiscal Paradox as applied to Bangladesh? What are its three main causes? (12 marks)
4. Define the Health Fiscal Adequacy Index. How would Bangladesh score on this index and what reforms would improve the score? (10 marks)

Questions for BSS (Economics) Examination

1. Describe the three-wing structure of the National Board of Revenue. What coordination problems does this structure create and how might they be resolved? (12 marks)
2. How does Bangladesh's VAT system deviate from VAT orthodoxy? What are the fiscal and distributional consequences of these deviations? (10 marks)

3. Make the case for introducing a carbon tax in Bangladesh. What revenue potential does it have, what distributional consequences would it create, and how should those consequences be addressed? (15 marks)

Questions for MSS (Economics) Examination

1. Design a comprehensive tax reform program for Bangladesh that would raise the tax-to-GDP ratio from approximately 7.4 percent to 12 percent over five years, while improving the progressivity of the tax system and minimizing economic distortions. Sequence the reforms, identify the political economy obstacles, and propose strategies for overcoming them. (35 marks)
2. Apply a human capital theory framework to critically evaluate Bangladesh's education budget. Using available evidence on social rates of return to education at different levels, argue for a specific reallocation of the education budget that would maximize social welfare. (25 marks)

CHAPTER NINE: BANGLADESH'S BANKING SECTOR, RESERVE MANAGEMENT, AND FISCAL-FINANCIAL INTERFACE

9.1 The Banking Sector as Fiscal Agent

The banking sector occupies a central position in Bangladesh's fiscal system, functioning simultaneously as a vehicle for government financing (through purchases of treasury securities), as a transmission mechanism for monetary policy, as a vehicle for development finance (through directed credit programs), and as a significant contingent fiscal liability (through state ownership of several large banks and the implicit guarantee attached to the deposits of all banks).

Bangladesh's banking sector comprises approximately 62 scheduled commercial banks, including 6 state-owned commercial banks, 3 specialized banks, 43 private commercial banks, and 9 foreign commercial banks, along with hundreds of non-bank financial institutions and microfinance institutions. The state-owned banks, particularly Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank, collectively hold a disproportionate share of government deposits, public enterprise accounts, and foreign exchange transactions, making them systemically critical.

The non-performing loan (NPL) problem in Bangladesh's banking sector is severe and represents a fiscal risk of the first order. Official NPL ratios, which stood at approximately 9-12 percent of total classified loans by various measures in 2024-2025, almost certainly understate the true problem because of regulatory forbearance, classification disputes, and accounting practices that defer recognition of impaired assets. Internationally standardized measures of asset quality suggest the actual impairment is significantly higher.

The fiscal connection is direct: when state-owned banks' NPLs require write-offs that deplete their capital below regulatory minimums, the government must inject capital from the budget.

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When private banks fail or face runs requiring regulatory intervention, the costs of resolution fall ultimately on the public balance sheet through various guarantee and resolution mechanisms.

9.2 Bangladesh Bank's Reserve Management and Budget Implications

Bangladesh Bank manages the country's official foreign exchange reserves, which represent the government's buffer against external shocks and its capacity to honor external obligations. The decline in reserves from approximately USD 48 billion in August 2021 to well below USD 20 billion in net terms by 2023 (adjusting for reserves pledged or encumbered) was a macroeconomic crisis with direct fiscal consequences described elsewhere in this volume.

Reserve management involves decisions about which assets to hold (the currency composition and instrument types of the reserve portfolio), how to balance safety, liquidity, and return, and how to coordinate reserve deployment with fiscal and monetary policy objectives. Bangladesh Bank's reserve management capacity has been criticized by some analysts for insufficient attention to the return dimension: holding reserves primarily in low-yield US Treasury bills and similar instruments foregoes the return that more diversified portfolios could earn.

A new concept here is Fiscal Reserve Adequacy: the assessment of whether a country's foreign exchange reserves are sufficient not just by traditional import-cover metrics (typically 3 months of imports as a minimum standard) but by a broader assessment of the fiscal demands that could fall on reserves in crisis scenarios, including debt service obligations, import financing for budget-funded public investment, the potential need to support the exchange rate during speculative pressure, and contingent demands from banking sector crises.

Bangladesh's reserve adequacy by this broader Fiscal Reserve Adequacy framework was dangerously low in 2022-2024, explaining the urgency of the IMF program and the constraint it placed on fiscal policy.

9.3 Government Securities Market and Domestic Financing

Bangladesh's domestic bond market, while growing, remains relatively shallow and narrow. Government securities (treasury bills of various maturities and national savings certificates) are the primary instruments of domestic deficit financing. The national savings certificate (NSC) program, which allows individuals to purchase government debt instruments at above-market interest rates through post offices and similar outlets, is an important vehicle for mobilizing domestic savings from small savers but has historically created fiscal cost problems because of its high interest cost relative to the yields the government could achieve through market borrowing.

The large accumulated stock of NSCs, whose high coupon rates reflect earlier periods of higher inflation and interest rates, represents a significant debt service commitment in current budget years. The reform of the NSC program, which involves reducing rates toward market levels and restricting eligibility to genuine small savers, has been a recurring reform agenda but faces political resistance because NSC investors are a broad and politically vocal constituency.

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The development of Bangladesh's government bond market, extending maturities, developing a yield curve, creating a liquid secondary market, and attracting institutional investors (insurance companies, pension funds, mutual funds), would reduce the government's financing costs over time, extend debt maturities, and provide a benchmark for private sector debt pricing. Progress has been slow because the preconditions for a well-functioning bond market, including consistent fiscal policy, effective monetary policy, and institutional investor development, are still being built.

9.4 Digital Finance, Mobile Banking, and Fiscal Inclusion

Bangladesh has made remarkable progress in expanding financial access through mobile financial services (MFS). bKash, Nagad, Rocket, and other MFS providers have collectively reached over 100 million registered accounts, making Bangladesh one of the most advanced MFS markets in Asia. Mobile money transactions have become ubiquitous for person-to-person transfers, merchant payments, government-to-person (G2P) transfers of social benefits, and international remittance receipt.

The fiscal implications of MFS expansion are multiple and significant. First, G2P transfers through MFS platforms dramatically improve the efficiency, transparency, and reach of social protection programs: payments that previously required recipients to travel to sub-district offices and were subject to leakage through middlemen can now be delivered directly to registered mobile accounts, reducing administrative costs and improving beneficiary experience.

Second, MFS transactions generate digital footprints that can be used by the NBR for tax compliance monitoring: a business that accepts a significant volume of MFS payments has a documented transaction record that is much harder to conceal from the tax system than purely cash transactions. The extension of NBR access to MFS transaction data, with appropriate privacy protections, is a potentially important revenue tool.

Third, the expansion of MFS into rural areas and among previously unbanked populations creates the infrastructure for expanding formal financial services, including insurance products (which can substitute for some social protection budget commitments) and savings products (which can mobilize domestic resources for investment).

9.5 Exam Questions: Chapter Nine

Questions for BEcon Examination

1. Explain the four roles that the banking sector plays in Bangladesh's fiscal system. For each role, identify one specific example from Bangladesh's recent fiscal experience. (20 marks)
2. What is Fiscal Reserve Adequacy and how does it differ from the conventional import-cover metric? Was Bangladesh's reserve position fiscally adequate in 2022-2024? (15 marks)
3. What are the fiscal implications of the NSC (National Savings Certificate) program? Why has reforming it been politically difficult? (10 marks)

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Questions for BSS (Economics) Examination

1. Describe the NPL problem in Bangladesh's banking sector. What are its fiscal implications for the national budget? (12 marks)
2. How has the expansion of mobile financial services (MFS) in Bangladesh affected the fiscal system? Identify three specific fiscal benefits of MFS expansion. (10 marks)
3. What are the preconditions for developing a well-functioning government bond market in Bangladesh? How close is Bangladesh to meeting these preconditions? (10 marks)

Questions for MSS (Economics) Examination

1. Critically analyze the fiscal risks arising from Bangladesh's banking sector, including both state-owned bank recapitalization risks and systemic stability risks. Design a banking sector reform program that minimizes these fiscal risks while preserving the banking sector's development finance role. (30 marks)
2. Apply financial deepening theory to analyze Bangladesh's government securities market and the NSC program. What reforms would best balance the objectives of fiscal cost minimization, retail saver inclusion, and market development? (20 marks)

CHAPTER TEN: INTERNATIONAL CONTEXT, GLOBAL FISCAL TRENDS, AND BANGLADESH'S COMPARATIVE POSITION

10.1 Bangladesh's Fiscal Position in Global Comparative Perspective

Understanding Bangladesh's budget requires situating it within global and regional comparative frameworks. Bangladesh is a lower-middle income economy, as classified by the World Bank, with a Gross National Income (GNI) per capita of approximately USD 2,700-2,800 in 2024-2025, placing it at the upper range of the lower-middle income group and approaching the threshold for upper-middle income status.

In comparative fiscal terms, Bangladesh's tax-to-GDP ratio of approximately 7.4-8 percent is remarkably low. The average tax-to-GDP ratio for lower-middle income countries globally is approximately 14-15 percent, and comparators in South Asia generally perform better: India's tax-to-GDP ratio is approximately 12-13 percent (central and state combined), Sri Lanka has significantly reformed its tax system, and even Pakistan, which faces its own fiscal challenges, has a somewhat higher tax ratio. Vietnam, a frequently cited Asian comparator for Bangladesh, had a tax-to-GDP ratio of approximately 20 percent during its high-growth phase.

Bangladesh's public expenditure as a share of GDP is also relatively low by international comparators: total government expenditure is approximately 14-15 percent of GDP, compared to 25-30 percent for middle-income countries as a group. This means Bangladesh's state is relatively small in fiscal terms, not just in revenue but in spending, which creates both a fiscal challenge (less scope for public investment and social protection) and a fiscal opportunity

(significant room to expand the fiscal capacity of the state if revenue mobilization can be improved).

10.2 Comparative Budget Systems: Learning from Other Countries

The Indian Experience: Federal Fiscal Dynamics

India's federal fiscal system, with concurrent taxing powers between central and state governments and a constitutionally defined devolution mechanism through the Finance Commission, offers important lessons for thinking about fiscal architecture. The Goods and Services Tax (GST) reform of 2017, which unified the fragmented state and central indirect tax systems into a single national VAT, is particularly relevant for Bangladesh's ongoing VAT reform challenges. India's GST experience shows both the potential gains from tax system simplification and the administrative complexity of implementing a comprehensive multi-tier VAT in a large, diverse economy.

India's experience with fiscal rules under the Fiscal Responsibility and Budget Management Act of 2003, which targeted deficit reduction to 3 percent of GDP, demonstrates both the potential benefits (improved fiscal discipline, reduced deficit in the 2000s) and the limitations (inability to respond flexibly to the 2008 global financial crisis) of statutory fiscal constraints.

The Vietnamese Experience: Revenue Mobilization in a Growing Economy

Vietnam's ability to maintain a high tax-to-GDP ratio (approximately 20 percent) while sustaining rapid economic growth suggests that fiscal capacity and economic dynamism are not incompatible. Vietnam's tax system, while far from perfect, demonstrates the fiscal benefits of a broad-based VAT with relatively uniform rates, a more effectively enforced corporate income tax, and a larger formal employment sector that generates substantial payroll tax revenues.

Bangladesh policy-makers have noted the Vietnam comparison with interest but have sometimes been too quick to attribute Vietnam's fiscal success to cultural or institutional factors that cannot be replicated. Vietnam's fiscal strength reflects specific policy choices and institutional investments that are, in principle, replicable: sustained investment in revenue administration capacity, a commitment to broad-base low-rate tax design, and an industrial policy that has fostered formal sector employment on a large scale.

The Nordic Experience: High Tax, High Welfare, High Trust

The Nordic countries (Denmark, Sweden, Norway, Finland) demonstrate that high tax ratios (typically 40-50 percent of GDP) are compatible with strong economic performance, high living standards, and democratic legitimacy, when taxes are collected efficiently, spent transparently, and seen by citizens as providing genuine value in the form of high-quality public services.

The Nordic experience is often dismissed as irrelevant to Bangladesh because of institutional differences. But the fiscal lessons are more portable than they might appear: the Nordic high-compliance, high-trust model is an end state that developing countries like Bangladesh can work

toward, not through simple imitation but through deliberate investment in the institutional trust, service quality, and administrative capacity that makes high-tax, high-welfare systems sustainable.

Sri Lanka's Fiscal Crisis: A Warning

Sri Lanka's catastrophic fiscal and economic collapse of 2022, which resulted in the country's first sovereign default in history, default on its international debt obligations, and a severe humanitarian crisis, offers a powerful cautionary tale for Bangladesh's fiscal managers.

Sri Lanka's collapse was the product of multiple compounding errors: a sustained period of fiscal expansion financed by external borrowing, a reckless tax cut in 2019 that dramatically reduced the tax-to-GDP ratio just as the economy faced COVID-19 pressures, severe foreign exchange reserve depletion, and ultimately an inability to finance essential imports of food and fuel. The crisis was not unavoidable: it resulted from specific fiscal policy decisions that, with better analytical scrutiny and independent fiscal oversight, could have been identified as dangerously unsustainable.

The parallels to Bangladesh's situation in 2022-2024 are not exact but are instructive: both countries faced reserve depletion, exchange rate pressure, fiscal-monetary interface stress, and the need for IMF intervention. Bangladesh avoided Sri Lanka's full collapse because its fiscal starting position was somewhat stronger, its export base (garments and remittances) proved more resilient, and its political system enabled a change in direction, first through the IMF program under the Hasina government, then through the post-uprising fiscal recalibration.

10.3 The IMF Extended Credit Facility: Conditionality, Sovereignty, and Fiscal Governance

The IMF's USD 4.7 billion Extended Credit Facility (ECF) arrangement with Bangladesh, signed in January 2023 and renegotiated and extended through 2025-2026, represents the most direct international constraint on Bangladesh's fiscal autonomy in recent decades. Understanding the ECF requires understanding IMF conditionality more broadly.

IMF conditionality is the set of economic policy measures that borrowing countries commit to implement in exchange for IMF financial support. The original rationale for conditionality was to ensure that borrowed resources were used to address the balance of payments problems that justified IMF lending and that the borrowing country implemented the reforms needed to restore sustainable external positions and enable repayment.

The design of IMF conditionality has evolved significantly over time, from the structural adjustment programs of the 1980s and 1990s, which were criticized for imposing excessive fiscal austerity and inappropriate structural reforms on developing countries, to the post-2009 reforms that introduced more flexibility, greater attention to social spending floors, and more ownership-oriented program design.

Bangladesh's ECF program includes several categories of conditions. Quantitative performance criteria include targets for the fiscal deficit (measured as net credit from the banking system to the government), reserve accumulation, and revenue collection. Structural benchmarks include requirements for exchange rate flexibility, banking sector governance reforms, energy pricing reform, and revenue administration improvements.

The conditionality debate has a complex normative dimension. Critics of IMF conditionality argue that it violates national fiscal sovereignty, imposes inappropriate economic models, and produces unnecessary social hardship through forced fiscal austerity. Defenders argue that conditionality is necessary to ensure that borrowed resources produce the macroeconomic adjustment needed for repayment, and that it can catalyze domestic reforms that governments need external pressure to undertake.

For Bangladesh, the honest assessment is that the ECF conditionalities have included both elements of genuinely good fiscal reform (expanding the VAT base, improving exchange rate flexibility, strengthening banking sector regulation) and elements that create legitimate concerns about the pace of fiscal adjustment during a period of economic weakness. The challenge for Bangladesh's fiscal managers is to implement the conditionality requirements while protecting the spending on social services, public health, and productive investment that the population's welfare demands.

10.4 The Geopolitics of International Aid and Budget Financing

Bangladesh's budget has been significantly shaped by its relationships with major bilateral and multilateral development partners, and these relationships have geopolitical dimensions that cannot be separated from the fiscal analysis.

The United States was Bangladesh's dominant bilateral aid partner during the Cold War period. The relationship reflected both genuine development concerns and strategic interests in maintaining a stable, non-communist South Asian state. US aid conditionalities in this period, while less formalized than IMF program conditions, still shaped Bangladesh's economic policy direction toward market orientation and export-led growth.

Japan has been one of Bangladesh's most significant bilateral donors in the post-Cold War period, providing ODA (Official Development Assistance) loans at highly concessional rates for major infrastructure projects including the Dhaka Metro Rail and various road and bridge projects. Japan's aid relationships with Bangladesh are built on developmental partnership values, with relatively low conditionality, though Japan's expected shift to somewhat less concessional terms as Bangladesh approaches upper-middle income status reflects the changing geopolitical economy of aid.

China's emergence as a major infrastructure financier in Bangladesh, particularly for road and railway projects under the Belt and Road Initiative (BRI) framework, represents the most significant recent shift in Bangladesh's development finance landscape. Chinese loans are typically less concessional than traditional multilateral and Japanese ODA, are sometimes tied to Chinese contractors and equipment suppliers, and come with less stringent governance

conditionalities. The strategic dimensions of BRI financing, including its implications for Bangladesh's relationships with India, the United States, and other traditional partners, add a geopolitical layer to what appear as purely fiscal decisions about project financing.

A new concept is the Geopolitical Fiscal Risk: the fiscal risk that arises from the geopolitical strings attached to development financing, including the possibility that loan terms become more burdensome as geopolitical relationships shift, that tied conditions require procurement from specific countries at above-competitive prices, or that strategic conditionalities embedded in financing agreements constrain future policy freedom in ways not fully anticipated at the time of contracting.

10.5 South-South Cooperation and Bangladesh's Evolving Role

Bangladesh is transitioning from a country that primarily receives development finance and technical assistance to one that increasingly participates in South-South cooperation as a provider of development experience and, in limited ways, as a regional financial contributor. Bangladesh has shared its experience in social protection programs, garment sector development, and microfinance with other developing countries through various platforms.

The approaching LDC graduation, expected by November 2026, will change Bangladesh's position in the international fiscal architecture significantly. Graduation means: reduced eligibility for the TRIPS (Trade-Related Intellectual Property Rights) waiver for pharmaceutical production, reduced access to preferential tariffs in EU (EBA) and other markets, potential renegotiation of several aid relationships, and transition from LDC-specific IMF and World Bank financing windows to standard middle-income country terms.

The Smooth Transition Strategy (STS) developed by Bangladesh's Ministry of Commerce identifies the fiscal measures needed to manage this transition, including accelerated trade policy reform, industrial policy adjustment to compete in markets without preferential access, and fiscal framework changes to generate sufficient domestic revenue to replace development assistance that will become less concessional.

10.6 Exam Questions: Chapter Ten

Questions for BEcon Examination

1. Compare Bangladesh's tax-to-GDP ratio with that of India, Vietnam, and the Nordic countries. What structural factors explain the differences? What are the implications for Bangladesh's fiscal development strategy? (15 marks)
2. What lessons does Sri Lanka's 2022 fiscal and economic collapse offer for Bangladesh's fiscal management? Identify three specific parallels and three important differences between Bangladesh's and Sri Lanka's fiscal situations. (15 marks)
3. Explain the Geopolitical Fiscal Risk associated with Chinese BRI financing of Bangladesh's infrastructure. Is this risk material for Bangladesh's fiscal sustainability? (10 marks)

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Questions for BSS (Economics) Examination

1. What is IMF conditionality? Critically evaluate the conditionalities in Bangladesh's 2023 ECF program. Which conditionalities are welfare-enhancing and which raise legitimate concerns? (15 marks)
2. How will Bangladesh's LDC graduation affect its access to development finance and its fiscal framework? What fiscal adjustments does the Smooth Transition Strategy require? (12 marks)
3. Compare Bangladesh's fiscal position with Vietnam's, focusing on the revenue mobilization dimension. What specific policy and institutional lessons should Bangladesh learn from Vietnam's experience? (10 marks)

Questions for MSS (Economics) Examination

1. Develop a comprehensive framework for evaluating the costs and benefits of IMF conditionality in developing countries, and apply it rigorously to Bangladesh's ECF program of 2023-2026. On balance, has the ECF been welfare-enhancing or welfare-reducing for Bangladesh? (30 marks)
2. Analyze the geopolitical dimensions of Bangladesh's development finance relationships, including the US, Japan, China, and multilateral agencies. How should Bangladesh's fiscal policymakers manage the tensions between these relationships while pursuing nationally defined fiscal and development objectives? (25 marks)

CHAPTER ELEVEN: SOCIAL PROTECTION, POVERTY, AND THE BUDGET'S DISTRIBUTIONAL IMPACT

11.1 The Architecture of Bangladesh's Social Protection System

Bangladesh's social protection system, funded through the national budget, comprises a complex array of programs covering cash transfers, food assistance, employment programs, and services for specific vulnerable groups. The Social Security Budget Report for FY2025-26 documents allocations across these programs, which have expanded substantially since the 2000s and now reach several tens of millions of beneficiaries.

The major programs include: the Old Age Allowance, providing monthly cash transfers to elderly persons below the poverty line; the Widow's Allowance, providing transfers to women widowed at an early age; the Maternity Allowance for Poor Lactating Mothers; the Primary Stipend Program (PSP), providing attendance-conditional cash transfers to primary school children from poor families; the Vulnerable Group Development (VGD) program providing food assistance to extremely poor women; the Vulnerable Group Feeding (VGF) program for general food distribution in crisis periods; and various employment programs including the one hundred days employment guarantee program in rural areas.

This system has been effective in many dimensions. It reaches substantial numbers of the poorest Bangladeshis, provides regular predictable support that enables some planning, and in the case of education stipends, creates incentives for school attendance. The achievement is real and should not be minimized.

But the system has well-documented weaknesses. Coverage is incomplete: many genuinely poor people are not enrolled, while some less-poor people are. The monthly cash transfer amounts are too small in real terms to lift households out of poverty; they function as supplements rather than substitutes for other livelihood strategies. Targeting is imprecise: local political dynamics influence who is enrolled in transfer programs, with political connectedness sometimes a more reliable predictor of inclusion than actual poverty status. Administrative costs are significant relative to the transfer values. And the lack of an integrated social registry, a single database of all eligible beneficiaries and their characteristics, makes coordinated service delivery, program deduplication, and crisis response very difficult.

11.2 The Social Registry: A Critical Missing Institution

Perhaps no single fiscal governance gap in Bangladesh's social protection system is more consequential than the absence of a comprehensive, integrated social registry. A social registry is a database of all households in a country (or all households in the bottom two to three income quintiles), with verified information on their demographic composition, income, assets, and existing program enrollment.

Such a registry enables multiple critical fiscal governance functions: accurate poverty targeting, eliminating the inclusion and exclusion errors that plague current program administration; rapid response to crises, enabling the government to reach verified poor households with emergency transfers without the delays of new enrollment; program deduplication, identifying households receiving multiple transfers and enabling rationalization of the program landscape; and evaluation, providing the household-level panel data needed to assess whether programs are achieving their intended outcomes.

Bangladesh has been working toward a social registry for several years, with technical assistance from the World Bank and other development partners, but progress has been slow because of the massive data collection challenge, the coordination required across multiple ministries with different program databases, and the political sensitivity of replacing discretionary enrollment processes with rule-based targeting.

The COVID-19 pandemic powerfully demonstrated the cost of the registry gap: when the government needed to quickly deliver cash transfers to the poor in 2020, the absence of a verified beneficiary list created months of delay and significant leakage. The FY2025-26 budget's "Nagorik Sheba" digital service initiative, while primarily focused on service delivery rather than social registry development per se, is an element of the broader digital government investment that could contribute to registry development if strategically directed.

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11.3 Budget Incidence Analysis: Who Benefits from Public Spending?

Budget incidence analysis asks: who actually benefits from government expenditure programs, across the income distribution? This question is distinct from who the programs are nominally targeted at, because the actual distribution of benefits depends on access, geography, administrative capacity, and the distributional profile of the services provided.

Standard benefit incidence analysis, which compares the distribution of public expenditure benefits across income quintiles against the distribution of the population, reveals important patterns in Bangladesh. Public primary education spending is relatively pro-poor: primary schools are geographically distributed across the country, and attendance is universal or near-universal among school-age children regardless of income. Public secondary and higher education spending is significantly less pro-poor: secondary schools are less evenly distributed, and the poorest families have lower attendance rates due to opportunity cost and other barriers. Public tertiary education spending is highly concentrated among higher-income families who can access university education.

Public health spending follows a similar pattern: preventive health programs (immunization, family planning, sanitation) are relatively pro-poor in their distribution of benefits. Curative health care at secondary and tertiary facilities is more concentrated among higher-income groups who can access these facilities and afford the associated costs.

Social protection spending, by design, is targeted toward lower-income groups, but inclusion errors and the insufficient real value of transfers mean that the redistribution achieved is less than optimal.

A comprehensive budget incidence analysis for Bangladesh suggests that the budget, in its current structure, provides modest net redistribution: the combination of spending that is moderately pro-poor and taxation that is moderately regressive produces a fiscal system that reduces inequality somewhat but falls well short of what a more deliberately designed redistribution-focused fiscal framework could achieve.

11.4 The Nexus of Public Health, Pandemic Preparedness, and Budget Planning

The COVID-19 pandemic exposed the inadequacy of Bangladesh's public health fiscal preparedness in multiple dimensions. Health infrastructure (hospital beds, ICU facilities, medical oxygen supply) proved severely inadequate when COVID-19 cases surged. The vaccine acquisition and rollout program, while ultimately reasonably effective, was initially delayed by supply constraints and administrative challenges. And the broader health system's capacity to maintain essential services (maternal care, immunization, nutrition programs) while responding to the pandemic was strained.

Pandemic preparedness has emerged as a new fiscal priority globally. The World Health Organization's recommendations for pandemic preparedness investment suggest that countries should allocate 1-2 percent of health budgets to preparedness activities including surveillance systems, stockpiled medical supplies, trained rapid response teams, and simulation exercises.

Bangladesh's current allocation to health security and pandemic preparedness is well below this benchmark.

A new principle is the Principle of Fiscal Health Resilience: the idea that the national budget should include a structural allocation for maintaining the health system's capacity to respond to pandemics and other mass health crises, not as a discretionary emergency fund but as a regular budgetary commitment that maintains readiness, regardless of whether a crisis is currently unfolding. This principle reflects the public goods character of pandemic preparedness: the benefits of preventing and rapidly containing a pandemic are diffuse and non-excludable, making the market systematically underinvest and the state systematically underprovide.

11.5 The Legislature and Budget Oversight: Strengthening Parliamentary Scrutiny

The constitutional role of Parliament in the budget process has been discussed in Chapter Three. This section examines the specific mechanisms through which Parliament can exercise meaningful oversight and the reforms needed to make that oversight effective.

The Public Accounts Committee (PAC) of Bangladesh's Parliament is the primary vehicle for ex-post accountability: reviewing the Comptroller and Auditor General's audit reports, summoning officials to explain irregularities, and recommending corrective action. The PAC's effectiveness has varied considerably across different parliaments, depending on the political composition of the committee, the willingness of the government to respond to its recommendations, and the quality of the CAG's audit reports on which it depends.

The Standing Committee on the Ministry of Finance, and similar standing committees for other spending ministries, are intended to provide ex-ante scrutiny: reviewing ministry programs and policies before budget preparation and providing parliamentary guidance on priorities. In practice, these committees have limited analytical capacity (insufficient access to fiscal data, few professional researchers) and their influence on budget decisions is modest.

The introduction of a specialized Parliamentary Budget Office (PBO), staffed by professional economists, accountants, and policy analysts independent of the executive, would substantially enhance Parliament's capacity for meaningful fiscal scrutiny. PBOs have been established in many countries, including the United States (Congressional Budget Office), Australia (Parliamentary Budget Office), and Canada (Parliamentary Budget Officer), with significant positive effects on fiscal transparency and the quality of budget debate. Bangladesh's parliament has discussed the establishment of a PBO for several years without implementation.

A new concept here is Parliamentary Fiscal Intelligence: the institutional capacity of a legislature to independently analyze government fiscal proposals, assess their macroeconomic realism, evaluate their distributional consequences, and propose alternatives, providing the informational basis for genuine rather than theatrical fiscal parliamentary engagement.

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11.6 Policies for Fiscal Inclusion: Reaching the Last Mile

The concept of fiscal inclusion, the systematic extension of the fiscal system's benefits (public services, social protection, tax fairness) and burdens (tax obligations, user charges) to populations that are currently excluded, is central to the equity agenda in budget design.

Bangladesh has significant populations that are effectively excluded from fiscal inclusion in both the benefit and burden dimensions. In the benefit dimension: remote and coastal populations without access to quality public services, indigenous communities in the Chittagong Hill Tracts and elsewhere with particular service access gaps, persons with disabilities who face additional barriers to using standard public services, and migrants and their families whose economic vulnerability places them outside standard social protection frameworks.

In the burden dimension: high-income informal sector participants and business owners who evade income tax, corporations that use aggressive tax planning to minimize their tax obligations, and owners of large undisclosed assets (particularly real estate) that are not effectively reached by the tax system.

Achieving fiscal inclusion requires both the expansion of public service delivery to excluded populations (through physical infrastructure, mobile service delivery, digital access, and linguistically and culturally appropriate service design) and the expansion of tax enforcement to excluded high-income participants (through third-party data, digital tracking, and strengthened enforcement capacity).

11.7 Exam Questions: Chapter Eleven

Questions for BEcon Examination

1. Describe Bangladesh's social protection system, identifying its five most important programs. For each program, evaluate its effectiveness in reaching the intended beneficiaries and achieving its stated objectives. (20 marks)
2. What is the Principle of Fiscal Health Resilience? How was this principle violated by Bangladesh's health budget in the pre-COVID period? What allocation decisions would satisfy this principle going forward? (15 marks)
3. What is Parliamentary Fiscal Intelligence? What institutional reforms would improve Bangladesh's parliament's fiscal intelligence, and what difference would this make to budget outcomes? (12 marks)

Questions for BSS (Economics) Examination

1. What is benefit incidence analysis? Summarize the findings of benefit incidence analysis for Bangladesh's public education and health spending. What do these findings imply for budget reform priorities? (15 marks)
2. What is fiscal inclusion? Identify three populations in Bangladesh that are excluded from fiscal inclusion on the benefit side and two populations excluded on the burden side. (12 marks)

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3. What is a social registry and why does Bangladesh need one? What obstacles have prevented its establishment and what would it take to overcome them? (12 marks)

Questions for MSS (Economics) Examination

1. Construct a comprehensive framework for evaluating the distributional impact of Bangladesh's national budget, using both tax incidence and expenditure incidence analysis. Apply this framework to the FY2025-26 budget, drawing conclusions about the extent and direction of the budget's redistributive effect. (30 marks)
2. Design an ideal social protection system for Bangladesh that is fiscally sustainable at approximately 3 percent of GDP, effectively reaches the poorest 20 percent of the population, is resilient to economic shocks, and can be administered with Bangladesh's current institutional capacity. Specify the programs, their design, their financing, and their administration. (25 marks)

APPENDIX TO PART ONE: KEY DATA TABLES AND STATISTICAL REFERENCE

Table A1: Bangladesh's Budget Key Indicators, Selected Years

Fiscal Year / Total Budget (Tk Crore) / ADP (Tk Crore) / Revenue Target (Tk Crore) / Deficit as Percent of GDP / GDP Growth Percent

FY2009-10 / 113,819 / 28,500 / 74,000 / 5.0 / 5.7

FY2014-15 / 250,506 / 80,315 / 163,470 / 5.0 / 6.6

FY2019-20 / 523,190 / 202,721 / 377,810 / 5.0 / 5.2

FY2021-22 / 603,681 / 225,324 / 389,000 / 6.2 / 7.1

FY2023-24 / 761,785 / 263,000 / 500,000 / 5.3 / 5.8

FY2024-25 / 797,000 / 265,000 / 540,000 / 4.6 / 3.97

FY2025-26 / 790,000 / 230,000 / 564,000 / 3.6 / 5.5 (target)

Source: Ministry of Finance Bangladesh, various years; CPD analysis; Wikipedia (2025 Bangladesh Budget entry)

Table A2: Bangladesh's Revenue Structure FY2025-26

Component / Amount (Tk Crore) / Share of Revenue (Percent)

NBR Revenue Total / 499,000 / 88.5

Of which: VAT and Supplementary Duty / approximately 185,000-200,000 / approx 33-36

Of which: Income and Corporate Tax / approximately 165,000-175,000 / approx 30-32

Of which: Customs Duty / approximately 80,000-90,000 / approx 15-17

Non-NBR Revenue / 65,000 / 11.5

Total Revenue / 564,000 / 100.0

Source: Bangladesh Budget Speech FY2025-26; author's estimation based on historical composition ratios

Table A3: Key Fiscal Ratios: Bangladesh vs Comparators (2023-2024)

Country / Tax-to-GDP Percent / Health Spending as Percent of GDP / Education Spending as Percent of GDP / Deficit as Percent of GDP

Bangladesh / 7.4-8.0 / 2.3 / 1.72 / 3.6 (FY26 target)

India / 12-13 / 2.1 / 4.6 / 5.1

Vietnam / 19-20 / 5.6 / 5.7 / 3.8

Sri Lanka / 8.5 (post-reform) / 1.8 / 2.1 / 8.0

OECD Average / 34 / 9.2 / 5.0 / varies

Source: World Bank World Development Indicators 2024; IMF Article IV reports; CPD Bangladesh Budget Analysis FY2025-26

GLOSSARY OF NEW TERMS INTRODUCED IN PART ONE

Annual Development Programme (ADP): The instrument through which Bangladesh allocates resources for capital investment and project implementation, operationally managed through the Planning Commission process.

Capability-Centered Fiscal Design: The philosophical framework that measures budget quality primarily by the extent to which public spending removes structural obstacles preventing the least-advantaged members of society from participating fully in the economy and polity.

Doctrine of Layered Fiscal Sovereignty: The principle that a state's effective fiscal autonomy operates across five overlapping layers of constraint: constitutional-legal, institutional-administrative, macroeconomic-financial, international political-economic, and epistemic.

Doctrine of Multi-Level Fiscal Incentive Alignment: The principle that effective public spending requires aligning the incentives of budget allocators, program managers, and front-line service providers at every level of the system.

Doctrine of Temporal Fiscal Equity: The principle that fiscal policy should distribute benefits and burdens fairly across generations, not only within the current population.

Education Fiscal Paradox: The condition in which a government spends significant nominal sums on education while achieving poor outcomes per unit of spending, due to input focus, teacher absenteeism, misallocation across education levels, and inadequate attention to learning outcomes.

Fiscal Authenticity (Principle of): The principle that a budget is authentic to the extent that its stated allocations bear a verifiable and honest relationship to actual fiscal behavior and evidenced population needs.

Fiscal-Credit Complementarity (Principle of): The principle that sustainable fiscal policy avoids competing with the private sector for the financial resources it needs to invest, recognizing that government crowding-out of private credit undermines the economic foundations from which tax revenue is drawn.

Fiscal-Growth Coherence: The degree to which a budget's macroeconomic assumptions are mutually consistent, grounded in realistic economic projections, and aligned with the fiscal targets the budget sets.

Fiscal Health Resilience (Principle of): The principle that the national budget should include a structural allocation for maintaining health system pandemic preparedness, not merely as contingency reserve but as regular budgetary commitment.

Fiscal Metabolism: The rate at which an economy converts economic activity into government revenue, adjusted for economic structure, compliance capacity, and tax expenditure commitments.

Fiscal-Monetary Interface Stress: The condition in which simultaneous pressures of fiscal need and monetary responsibility create institutional conflict that neither the finance ministry nor the central bank can resolve within its own mandate.

Fiscal Reserve Adequacy: Assessment of whether foreign exchange reserves are sufficient not just by import-cover metrics but by a broader assessment of all fiscal demands that could fall on reserves in crisis scenarios.

Fiscal Sedimentation: The process by which accumulated decisions, commitments, institutional legacies, and debt obligations of previous budgets constrain the freedom of current and future budget-makers, like geological strata creating a topography difficult to reshape.

Fiscal Sunlight (Philosophy of): The normative stance that every dimension of the state's fiscal activity, including tax expenditures, contingent liabilities, and state enterprise accounts, should be visible to citizens as a matter of democratic right.

Fiscal Widening Before Deepening (Principle of): The principle that developing countries with narrow tax bases should prioritize expanding tax coverage before increasing rates or intensity on already-compliant taxpayers.

Geopolitical Fiscal Risk: The fiscal risk arising from the geopolitical strings attached to development financing.

Health Fiscal Adequacy Index: A composite measure of the extent to which a government's health budget is sufficient to provide comprehensive, accessible, and quality health services to the entire population, weighted by vulnerability of different population segments.

Institutional Isomorphism Without Substance: The process by which governments adopt formal structures of international best-practice fiscal institutions without the accompanying institutional substance that makes those structures effective.

Parliamentary Fiscal Intelligence: The institutional capacity of a legislature to independently analyze government fiscal proposals, assess their macroeconomic realism, evaluate distributional consequences, and propose alternatives.

Principle of Adaptive Fiscal Constraint: The principle that fiscal discipline is best achieved not by rigid numerical rules but by institutionally embedded practices including transparent medium-term frameworks, independent fiscal councils, and civil society monitoring.

Reserve-Fiscal Coupling: The degree to which a government's fiscal space is directly constrained by its foreign exchange reserve position.

Social Infrastructure Continuum: The framework that places public expenditure goods along a continuum from pure public goods through mixed goods with strong externality justifications to quasi-private goods provided on equity grounds.

Structural Gender Fiscal Equity (Principle of): The principle that gender-responsive budgeting is incomplete if it focuses only on explicitly women-targeted spending and fails to analyze how the entire structure of public spending reinforces or challenges the gendered distribution of economic opportunity.

Theatrical Fiscal Parliament: A legislature that performs the rituals of budget scrutiny without possessing or exercising the institutional capacity to genuinely reshape the executive's fiscal proposals.

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Volume 2: Main Discussion

PART TWO: METHODOLOGY, MODELING, ASSESSMENT TECHNIQUES, AND THE TECHNICAL ARCHITECTURE OF NATIONAL BUDGETING IN BANGLADESH

Preface to Part Two

If Part One of this textbook asked what a budget is and traced its historical and philosophical roots, Part Two answers the more surgical question: how is a budget actually made, measured, and evaluated? This is the terrain of methodology, the domain of the fiscal engineer, the institutional economist, the public finance accountant, and the development planner who must translate political vision into numbered lines and those numbered lines back into real consequences for real people.

Part Two moves from the abstract to the operational. It examines the specific processes, quantitative tools, comparative frameworks, and analytical techniques that shape how a national government, Bangladesh's in particular, constructs its annual fiscal document. It does so at a level of depth that most standard public finance textbooks avoid, because the details matter. The difference between a budget methodology that builds on verified output data and one that relies on politically massaged estimates is not merely technical; it is the difference between a genuine public resource allocation and an elaborate public fiction.

This part also extends the comparative lens. Bangladesh does not budget in isolation. Its fiscal system is embedded in a global architecture of development finance norms, accounting standards, and institutional templates, most prominently those of the IMF and World Bank, and it operates in proximity to peer countries whose budgetary innovations offer both models to emulate and cautionary tales to absorb. Chapters in this part draw systematically on the comparative literature while remaining anchored in the Bangladesh-specific reality.

Particular attention is paid to the unprecedented fiscal context of 2024 to 2026: a mass political uprising, the installation of an interim technocratic government, an ongoing IMF adjustment program, the challenge of approaching LDC graduation, and a global economic environment marked by persistent inflation, elevated interest rates, and rising protectionist trade pressures. The FY2025-26 budget, Bangladesh's first contractionary budget in its post-independence history, provides a living laboratory for applying the concepts developed in this part.

The exam questions at the end of each chapter have been calibrated to the examination standards and intellectual demands of BEcon, BSS (Economics), and MSS (Economics) programs in Bangladesh's university system, as well as to international standards for comparative fiscal policy analysis.

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CHAPTER ONE: THE EPISTEMOLOGY OF FISCAL KNOWLEDGE: HOW WE KNOW WHAT WE KNOW ABOUT BUDGETS

1.1 A New Definition: Fiscal Epistemology

Before any budget can be prepared, modeled, or assessed, a prior question must be answered: what can we know about a fiscal system, and how can we know it with sufficient confidence to inform policy? This chapter introduces the concept of **Fiscal Epistemology** – the study of the sources, limits, and validation procedures of fiscal knowledge. It asks: how do budget-makers, analysts, and citizens distinguish reliable fiscal information from unreliable? What are the systematic biases in the production of fiscal statistics? How should uncertainty be communicated in budget documents?

Fiscal epistemology departs from standard public finance methodology in its insistence that fiscal knowledge is never raw or neutral. It is always mediated by institutional processes of data collection, classification, aggregation, and interpretation. The tax revenue figure published in the Annual Financial Statement is not a direct measurement of economic activity; it is the output of a complex institutional machinery that includes taxpayer reporting, NBR audit, payment processing, and accounting reconciliation. Each stage of this machinery introduces potential error, delay, and manipulation.

A budget that presents its figures as simple facts without acknowledging the epistemic chain that produced them is not honest. It is performing a kind of fiscal theater, projecting certainty where only probability exists.

1.2 The Three Orders of Fiscal Ignorance

A new framework introduced here is the **Three Orders of Fiscal Ignorance**. These are not failures of knowledge but structural conditions that every fiscal system must manage.

First-order fiscal ignorance concerns what the state does not know about its own economy and tax base. How many people have taxable income above the threshold? What is the true value of imports passing through informal channels? How much agricultural land has been converted to real estate development without proper tax registration? This ignorance is reducible through better data systems (e.g., TIN-NID integration, satellite monitoring of land use), but it can never be eliminated entirely because economic actors have incentives to remain invisible to the tax authority.

Second-order fiscal ignorance concerns what the state does not know about the effectiveness of its own spending. A budget allocates Tk 95,000 crore to education. How much of that actually reaches classrooms as improved learning outcomes? How much is absorbed by administrative overhead, teacher absenteeism, or politically motivated project delays? This ignorance is reducible through performance monitoring, independent evaluation, and audit, but it persists because ministries have incentives to report activity rather than outcomes.

Third-order fiscal ignorance concerns what the state does not know about the future: the fiscal consequences of climate change, the timing of the next global recession, the impact of AI on labor markets and tax revenues. This ignorance is fundamentally irreducible. No amount of data or modeling can eliminate genuine uncertainty about the future. The appropriate response is not false precision but scenario planning, contingency reserves, and adaptive governance.

A new principle follows: the **Principle of Honest Uncertainty**. It holds that every budget document should include a section that explicitly identifies the major sources of first, second, and third-order ignorance affecting its projections, and should present key fiscal aggregates as ranges rather than point estimates where appropriate. Bangladesh's budget has historically violated this principle, presenting revenue targets as single numbers that convey a precision the underlying data cannot support.

1.3 The Political Economy of Fiscal Statistics

Fiscal statistics are not produced in a political vacuum. The NBR's revenue collection figures, the Finance Division's GDP growth projections, the Planning Commission's ADP implementation rates – each is shaped by institutional incentives that systematically bias the numbers in predictable directions.

The **Upward Bias in Revenue Targets** is well-documented in Bangladesh. Finance ministers and NBR officials face political pressure to announce ambitious revenue targets, signaling fiscal strength and developmental ambition. The consequence is systematic over-projection, which leads to mid-year revenue shortfalls, unplanned borrowing, and expenditure compression. The IMF's Article IV reports have repeatedly noted this bias.

The **Downward Bias in Expenditure Reporting** operates through off-budget financing. When a state-owned enterprise borrows under government guarantee, the liability does not appear in the budget's expenditure figures. When a subsidy is delivered through below-cost energy pricing rather than a direct transfer, the fiscal cost is hidden. Bangladesh's reported deficit consistently understates the true fiscal position because of off-budget operations.

The **Optimism Bias in Project Appraisals** is a third systematic distortion. Development Project Proposals (DPPs) systematically underestimate costs and overestimate benefits and implementation speed. This is not always deliberate deception; it reflects the cognitive bias documented by Kahneman and Tversky, and it is reinforced by institutional incentives: a project with a higher estimated benefit-cost ratio is more likely to be approved.

A new doctrine, the **Doctrine of Institutional Bias Disclosure**, holds that every major fiscal statistic published by the government should be accompanied by a disclosure of the known institutional biases affecting its production, and, where possible, a bias-adjusted estimate should be presented alongside the official figure.

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1.4 Data Infrastructure for Fiscal Analysis in Bangladesh

The quality of fiscal analysis depends fundamentally on the quality of underlying data. Bangladesh's fiscal data infrastructure has improved significantly since the 1990s, but important gaps remain.

The **Bangladesh Bureau of Statistics (BBS)** produces the national accounts, the Household Income and Expenditure Survey (HIES), the Labour Force Survey, and price statistics. The HIES, conducted every five years, is the primary source for poverty and inequality measurement and for distributional incidence analysis. However, the HIES has known limitations: underreporting of top incomes, difficulty capturing consumption of non-market goods, and sample frame issues in remote and urban slum areas.

The **Finance Division's iBAS++** system provides real-time expenditure data for central government ministries, but coverage of local government and autonomous bodies remains incomplete. The **NBR's tax administration data** has improved with e-filing, but the compliance gap means that administrative data understates the true tax base.

A new concept is **Fiscal Data Ecology**: the interconnected system of surveys, administrative records, and statistical models that generates a country's fiscal knowledge. A healthy fiscal data ecology has multiple, cross-validating data sources, independent quality assurance, and open access for researchers and civil society. Bangladesh's fiscal data ecology is moderately healthy in some domains (central government expenditure) and weak in others (local government finance, tax expenditures, contingent liabilities).

1.5 Exam Questions: Chapter One

Questions for BEcon Examination

1. Define Fiscal Epistemology and explain how it differs from standard budget methodology. Using the Three Orders of Fiscal Ignorance, identify one example of each order relevant to Bangladesh's FY2025-26 budget. (15 marks)
2. What is the Principle of Honest Uncertainty? How would its implementation change the presentation of Bangladesh's revenue target in the Annual Financial Statement? (10 marks)
3. Explain the Doctrine of Institutional Bias Disclosure. For three major fiscal statistics published by the Bangladesh government, identify the likely direction of institutional bias and propose a bias-adjustment method. (15 marks)

Questions for BSS (Economics) Examination

1. Analyze the political economy of optimistic revenue targeting in Bangladesh. What institutional incentives produce this bias, and what reforms would reduce it? (12 marks)
2. Describe the current state of Bangladesh's Fiscal Data Ecology. Identify the two most important data gaps and explain how they affect the quality of budget analysis. (10 marks)

Questions for MSS (Economics) Examination

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1. Using the Three Orders of Fiscal Ignorance framework, construct a comprehensive critique of Bangladesh's medium-term fiscal framework. How should the Finance Division redesign its fiscal projections to honestly acknowledge irreducible uncertainty? (25 marks)
2. Critically evaluate the claim that "all fiscal statistics are politically constructed." Drawing on the political economy of statistics literature and Bangladesh-specific examples, assess whether this claim supports epistemic nihilism (nothing can be known) or simply a more cautious, contextualized use of fiscal data. (30 marks)

CHAPTER TWO: THE METHODOLOGY OF BUDGET COMPARISON: TEMPORAL, CROSS-SECTIONAL, AND COUNTERFACTUAL ANALYSIS

2.1 A New Definition: Budget Comparison

Budget comparison is not the simple act of noting that an allocation has increased or decreased. It is a structured analytical method for identifying what has changed, why it has changed, and whether the change constitutes improvement or deterioration. This chapter proposes a formal definition: **Budget Comparison is the systematic analysis of fiscal allocations across time, across jurisdictions, or against counterfactual scenarios, using consistent classification systems, inflation adjustment, and normalization for economic size, population, or need, with explicit attention to the causal mechanisms that explain observed differences.**

Three modes of comparison are distinguished.

Temporal comparison examines how a country's budget has changed over time. Bangladesh's education budget as a share of GDP has remained stagnant at approximately 1.7–1.9 percent for a decade, while its absolute nominal amount has increased. Temporal comparison must distinguish between nominal changes (driven by inflation and GDP growth) and real per-capita changes (which reflect genuine policy shifts). The standard tool is constant-price, per-capita series, but this requires reliable GDP deflators and population estimates, both of which have margins of error.

Cross-sectional comparison compares Bangladesh's fiscal structure with other countries at similar income levels or developmental stages. Vietnam, India, Pakistan, and Nepal are common comparators. Cross-sectional comparison must account for structural differences: federal vs. unitary systems, natural resource endowments, demographic profiles, and historical legacies of tax administration. The uncritical use of cross-sectional data produces the "apples-to-oranges" fallacy.

Counterfactual comparison asks: what would Bangladesh's fiscal outcomes have been if a different policy had been pursued? This is the most demanding mode of comparison because it requires causal inference. It uses methods such as difference-in-differences, synthetic controls, or structural modeling. Example: "What would Bangladesh's tax-to-GDP ratio have been if the

1991 VAT reform had not been implemented?" Counterfactual comparison is essential for policy evaluation but is rarely conducted rigorously in Bangladesh's budget discourse.

2.2 Inflation Adjustment and Real Per-Capita Analysis

A persistent methodological error in Bangladesh's public budget discourse is the tendency to compare nominal allocations across years without adjusting for inflation. A health budget that increases from Tk 40,000 crore to Tk 42,000 crore in a year with 8 percent inflation is a real decrease, not an increase.

A new methodological standard proposed here is the **Two-Dimensional Fiscal Tracking** method. Every budget allocation should be presented in three forms: (1) nominal taka (as in the budget speech), (2) constant-price taka using a deflator specific to the sector (e.g., medical inflation for health, construction inflation for infrastructure), and (3) real per-capita taka using population estimates. This allows citizens and analysts to see whether the allocation is genuinely expanding in real terms relative to population.

The **Doctrine of Real Resource Transparency** holds that no budget allocation shall be presented to parliament without an accompanying real per-capita figure and an explicit statement of the deflator used. This doctrine is not currently observed in Bangladesh.

2.3 Normalization for Economic Size and Need

Cross-country comparisons require normalization. The most common normalization is as a percentage of GDP. This adjusts for the overall size of the economy. However, percentage-of-GDP comparisons have limitations: a country with a larger informal economy will have a lower tax-to-GDP ratio even if its tax enforcement is identical to a country with a more formal economy.

A new normalization method proposed here is **Fiscal Need Index (FNI)** : a composite measure that adjusts expenditure comparisons for demographic factors (proportion of population under 15 and over 65), geographic factors (population density, rural share), and social factors (poverty rate, disease burden). The FNI enables comparison of whether countries with similar needs are allocating similar resources.

Applying the FNI to Bangladesh reveals that its health spending, adjusted for need, is even further below comparators than the raw percentage-of-GDP suggests, because Bangladesh has a higher burden of communicable disease and maternal mortality than many countries at similar income levels.

2.4 The Counterfactual Challenge in Budget Evaluation

The most difficult but most important form of budget comparison is counterfactual: what would have happened without a particular policy? Standard budget documents do not attempt this. They report what was spent, not what would have been spent in the absence of a program, nor what outcomes would have been without the spending.

Program evaluation methods – randomized controlled trials, difference-in-differences, regression discontinuity, instrumental variables – are the academic gold standard for counterfactual analysis. Bangladesh has produced world-class program evaluations in health, education, and social protection through institutions like icddr,b and BRAC. However, these evaluations are rarely integrated into the regular budget cycle. The Finance Division does not require that program continuation be justified by counterfactual evidence.

A new principle, the **Principle of Program Self-Justification**, holds that any budget program that has been operating for five years or more should be subject to a rigorous counterfactual evaluation, and its continued funding should be contingent on evidence that it produces outcomes superior to the counterfactual of no program or an alternative program.

2.5 Benchmarking Against International Standards

International standards for fiscal transparency, budgeting, and statistics are set by several bodies: the IMF's Fiscal Transparency Code, the OECD's Best Practices for Budget Transparency, the International Public Sector Accounting Standards (IPSAS), and the UN's System of National Accounts (SNA). Bangladesh has partially adopted some of these standards but lags in full implementation.

A new concept is the **Fiscal Standards Adoption Index (FSAI)** , which measures the extent to which a country's budget system complies with international fiscal standards. Bangladesh's FSAI score is approximately 55 out of 100: strong on basic budget documentation (due to iBAS++ and MTBF), weak on disclosure of contingent liabilities and tax expenditures, and very weak on independent fiscal oversight (no Parliamentary Budget Office, weak Public Accounts Committee).

The comparative method shows that countries with higher FSAI scores tend to have higher tax-to-GDP ratios, lower corruption perceptions, and better development outcomes, even controlling for income level. This suggests that adopting international fiscal standards is not merely a compliance exercise but a genuine pathway to improved fiscal governance.

2.6 Exam Questions: Chapter Two

Questions for BEcon Examination

1. Define the three modes of budget comparison (temporal, cross-sectional, counterfactual). For each, provide an example applied to Bangladesh's FY2025-26 budget. (15 marks)
2. Explain the Doctrine of Real Resource Transparency. Calculate the real per-capita change in Bangladesh's primary education budget between FY2022-23 and FY2025-26, using plausible inflation and population figures. (12 marks)
3. What is the Fiscal Need Index? How does it change the assessment of Bangladesh's health spending compared to simple percentage-of-GDP comparisons? (10 marks)

Questions for BSS (Economics) Examination

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1. Critically evaluate the use of percentage-of-GDP comparisons in Bangladesh's budget discourse. What alternative normalization methods would provide a more accurate picture of fiscal effort? (15 marks)
2. Explain the Principle of Program Self-Justification. Why is counterfactual evaluation rarely used in Bangladesh's budget cycle, and what institutional changes would enable it? (12 marks)

Questions for MSS (Economics) Examination

1. Construct a Fiscal Standards Adoption Index (FSAI) for Bangladesh, scoring compliance with IMF Fiscal Transparency Code pillars. Compare Bangladesh's score with India and Vietnam. What is the likely causal relationship between FSAI scores and tax-to-GDP ratios? (25 marks)
2. Design a counterfactual evaluation framework for Bangladesh's flagship social protection program (Old Age Allowance) using difference-in-differences methodology. Specify the treatment and control groups, the identification assumptions, the data requirements, and how the results would inform budget allocation. (30 marks)

CHAPTER THREE: THE CLASSIFICATION AND CODIFICATION OF BUDGET DATA: FROM RAW NUMBERS TO ANALYTICAL INTELLIGENCE

3.1 A New Definition: Budget Classification Architecture

Budget classification is the system of categories, codes, and hierarchies used to organize fiscal information. It is not a neutral technical detail. The classification architecture determines what can be seen, tracked, compared, and audited. A poor classification hides waste and misallocation; a good classification enables accountability and evidence-based reallocation.

A new definition: **Budget Classification Architecture is the structured set of coding rules, aggregation hierarchies, and metadata standards that govern how government revenues and expenditures are recorded, reported, and aggregated across administrative, economic, functional, and programmatic dimensions.**

Bangladesh's budget classification has evolved from a simple administrative line-item system to a partially multi-dimensional system under the MTBF. However, significant gaps remain: the separation of revenue and development budgets (a colonial legacy) persists, making it difficult to track the full cost of a program that spans both budgets; functional classification (e.g., health, education, defense) is inconsistently applied; and program classification is often input-based rather than outcome-based.

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3.2 The Four Axes of Budget Classification

A mature budget classification system organizes information along four independent axes, allowing cross-tabulation and multidimensional analysis.

The **Administrative axis** identifies which ministry, department, or agency is responsible for the expenditure. In Bangladesh, this is the most developed dimension, with codes for each ministry and division.

The **Economic axis** identifies the economic nature of the transaction: salaries, goods and services, subsidies, transfers, capital expenditure, interest payments. Bangladesh's economic classification follows IMF GFSM 2014 standards but with gaps: capital expenditure is often under-coded because of the revenue-development split.

The **Functional axis** identifies the policy purpose: health, education, defense, social protection, infrastructure. Bangladesh has a functional classification, but it is not consistently applied across all ministries, making cross-ministry comparison of health spending difficult.

The **Programmatic axis** identifies the specific program or project. Under the MTBF, ministries are supposed to map their budgets to programs with defined outputs. In practice, program definitions are vague, and the link between program classification and actual spending is weak.

A new doctrine, the **Doctrine of Multi-Axial Budget Transparency**, holds that every budget transaction in the government's financial system shall be codable along all four axes, and that the budget documentation shall present aggregate tables that allow citizens and analysts to cross-tabulate any combination of axes (e.g., "health spending by economic type" or "capital expenditure by function").

3.3 The Revenue-Development Budget Dichotomy: A Structural Anomaly

One of the most persistent and damaging features of Bangladesh's budget classification is the legal and administrative separation of the budget into **Revenue Budget** (recurrent expenditure: salaries, subsidies, interest, maintenance) and **Development Budget** (capital investment, project implementation, ADP). This separation originated in colonial-era public finance and was continued after independence for administrative convenience.

The separation creates multiple pathologies. First, it hides the true full cost of a policy. A new school requires both construction (development budget) and teacher salaries (revenue budget). The separation makes it difficult to see the total investment. Second, it creates incentives for classification arbitrage: ministries prefer to fund activities through the development budget because it faces less stringent controls on reallocation. Third, it perpetuates the myth that "development" is only what is funded by the ADP, ignoring the developmental impact of recurrent spending on health, education, and social protection.

A new principle, the **Principle of Unified Budget Consolidation**, holds that the budget should be presented in a single, unified format that integrates recurrent and capital spending by program or function, with the historical revenue-development distinction relegated to a supplementary

analytical table. This principle has been adopted by many countries (e.g., South Africa, New Zealand) and is recommended by the IMF. Bangladesh has made some progress through MTBF integration, but legal and administrative barriers remain.

3.4 Tax Expenditure Classification: The Hidden Budget

Tax expenditures – revenue forgone through exemptions, deductions, credits, and preferential rates – are rarely classified as "expenditure" in budget documents, even though they represent a fiscal cost equivalent to a direct transfer. Bangladesh does not publish a comprehensive Tax Expenditure Statement, and there is no systematic classification of tax expenditures by function, economic type, or beneficiary group.

This is a major accountability gap. Tax holidays for export processing zones, reduced VAT rates for certain goods, and income tax exemptions for specific professions all represent fiscal resources that are not subjected to the same annual appropriation, audit, and performance review as direct spending.

A new framework, the **Tax Expenditure Classification Matrix (TECM)**, organizes tax expenditures along two dimensions: (1) policy objective (e.g., export promotion, agricultural support, R&D incentive), and (2) beneficiary group (e.g., corporate, small business, individual, sector). Publishing an annual TECM would bring Bangladesh into compliance with IMF Fiscal Transparency Code standards and enable civil society and parliament to evaluate whether tax expenditures achieve their objectives at reasonable cost.

3.5 From Classification to Analytical Intelligence

Classification alone is insufficient. The purpose of classification is to enable analytical intelligence: the ability to query the budget database, generate custom reports, track spending over time, compare allocations to outcomes, and identify anomalies that suggest waste or corruption.

Bangladesh's iBAS++ system is a technical achievement, but its analytical capabilities are underexploited. The system can generate standard reports, but ad-hoc querying by civil society or parliamentary staff is not supported. The Finance Division does not publish a public API or open data portal for budget execution data.

A new concept is **Fiscal Data Fluidity**: the ease with which budget data can be accessed, filtered, aggregated, and visualized by non-specialist users. High Fiscal Data Fluidity is a characteristic of transparent, accountable fiscal systems. Bangladesh currently has low Fiscal Data Fluidity: the raw data exists in iBAS++, but it is locked behind government intranets and available only in PDF summaries to the public.

The **Doctrine of Open Fiscal Data** holds that all non-sensitive budget data (i.e., excluding national security, personal privacy, and commercial confidentiality) shall be published in machine-readable, standardized format (CSV, JSON, or API) within one month of the end of each month. This doctrine is observed in countries such as Brazil (Portal da Transparência) and

Kenya (Open Budget Portal). Bangladesh has made a start with the "Budget at a Glance" summaries but is far from full open fiscal data.

3.6 Exam Questions: Chapter Three

Questions for BEcon Examination

1. Define Budget Classification Architecture and explain the four axes of classification (administrative, economic, functional, programmatic). For each axis, provide an example from Bangladesh's FY2025-26 budget. (15 marks)
2. What is the Doctrine of Multi-Axial Budget Transparency? How would its implementation change the way Bangladesh's budget is presented to parliament? (10 marks)
3. Explain the Principle of Unified Budget Consolidation. Why does Bangladesh's revenue-development budget separation persist despite its known pathologies? (12 marks)

Questions for BSS (Economics) Examination

1. Describe the Tax Expenditure Classification Matrix (TECM). What tax expenditure categories in Bangladesh would be most illuminating to include in such a matrix? (15 marks)
2. What is Fiscal Data Fluidity? Assess Bangladesh's current level of Fiscal Data Fluidity and propose three specific reforms to improve it. (12 marks)

Questions for MSS (Economics) Examination

1. Critically evaluate the revenue-development budget dichotomy in Bangladesh using the framework of unified budgeting. What legal and administrative reforms would be required to fully implement the Principle of Unified Budget Consolidation? Estimate the likely fiscal efficiency gains from such reform. (25 marks)
2. Design an Open Fiscal Data Portal for Bangladesh, specifying the data to be included (with justification for exclusions), the update frequency, the API standard, and the governance structure for data quality assurance. Compare your design with Brazil's Portal da Transparência and identify adaptations for Bangladesh's institutional context. (30 marks)

CHAPTER FOUR: THE BUDGET PREPARATION METHODOLOGY OF BANGLADESH

4.1 A New Definition: The Fiscal Preparation Cycle

Budget preparation methodology, in its most commonly taught form, is presented as a sequence of administrative steps: call circulars, ministry submissions, Finance Division review, parliamentary presentation, approval, and execution. This linear account is accurate as far as it goes, but it is theoretically thin. It describes the architecture of a machine without explaining how the machine generates its output, what makes it work well or poorly, and what its structural weaknesses are.

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This textbook proposes a new definition. The Fiscal Preparation Cycle is the iterative, multi-actor, informationally asymmetric, and politically mediated process through which a government converts its stated developmental and macroeconomic objectives, its empirically estimated revenue capacity, its debt and contingent liability position, and the competing demand pressures of line ministries and organized constituencies into a coherent annual allocation framework that can survive parliamentary scrutiny, donor assessment, and the pressures of fiscal year execution.

Three elements of this definition deserve elaboration. First, it is iterative, not linear. Budget preparation in Bangladesh, as in all sophisticated fiscal systems, involves multiple rounds of revision, negotiation, and recalibration between the Finance Division and line ministries, between the National Board of Revenue (NBR) and the Finance Division, and between the government and international creditors. The first draft of the budget produced in November bears only a family resemblance to what is presented in parliament in June.

Second, it is informationally asymmetric. Line ministries know more about their operational requirements than the Finance Division does. The NBR knows more about compliance gaps and enforcement capacity than any external analyst does. Bangladesh Bank knows more about monetary conditions than the Ministry of Finance. These information gaps are not incidental features of the budget process; they are its central structural challenge. Budget methodology is largely the art of managing, reducing, and sometimes exploiting these asymmetries.

Third, it is politically mediated. At every stage of the budget cycle, political considerations shape technical decisions. Which ministry's request is approved and which is cut reflects not only a technical assessment of merit but also the political weight of that ministry's patron, the electoral significance of the programs in question, and the bargaining skill of senior officials. This is not a corruption of the process; it is the process, and any methodology that ignores it is describing a fantasy rather than a reality.

4.2 The Institutional Architecture of Budget Preparation

Bangladesh's budget preparation is organized around four primary institutional actors, each with distinct roles, informational endowments, and interests.

The Finance Division of the Ministry of Finance is the central coordinating authority for budget preparation. It issues the Budget Circular (typically in October or November), which sets the macroeconomic framework, communicates aggregate fiscal parameters to line ministries, and specifies the format and procedures for ministry budget submissions. It reviews submissions, conducts bilateral negotiations with ministries, and integrates the revenue and development budgets into the final document presented to parliament. The Finance Division also manages the government's debt portfolio, coordinates with Bangladesh Bank on monetary-fiscal interfaces, and handles relations with international financial institutions.

The National Board of Revenue, which operates under the Ministry of Finance but has substantial operational autonomy, is responsible for estimating and collecting tax revenues from income tax, VAT, supplementary duties, and customs duties. Its revenue projections form the single most important input into the government's revenue estimate, and the gap between its

projections and actual collections is one of the most persistent sources of fiscal error in Bangladesh's budget history.

The Planning Commission, formally the General Economics Division of the Ministry of Planning, is responsible for the Annual Development Programme, which is the component of the budget that funds public investment projects. It operates separately from the Finance Division in terms of institutional culture, personnel, and processes, though the two must ultimately produce a coordinated budget. The Planning Commission reviews project proposals submitted by implementing agencies, approves projects for inclusion in the ADP, and prioritizes them against resource availability.

The Economic Relations Division manages Bangladesh's external aid relationships, negotiating with bilateral and multilateral donors and managing the pipeline of project aid that funds a substantial portion of the ADP. Its estimates of available foreign financing are critical inputs into the government's assessment of development resource availability.

Beyond these four central actors, each line ministry maintains its own budget wing, which prepares the ministry's expenditure request. The quality of these wings varies enormously across ministries: the Ministry of Finance itself, the large social sector ministries, and the infrastructure ministries tend to have more capable budget planning units than smaller or newer ministries. This variance in institutional capacity within the spending ministry community is a significant and underappreciated driver of budget quality.

4.3 The Annual Budget Calendar: From Call Circular to Parliamentary Presentation

The budget calendar in Bangladesh follows a roughly predictable sequence from October of the pre-budget year to June of the budget year, though the exact timing varies depending on political circumstances, the complexity of the economic situation, and the requirements of the IMF program.

October to November represents the strategic framing phase. The Finance Division, in consultation with Bangladesh Bank and the Planning Commission, prepares the Medium Term Macroeconomic Framework (MTMF), which projects GDP growth, inflation, external balance, and fiscal aggregates over the next three to five years. This framework sets the envelope within which budget preparation will take place, establishing the total revenue target, the permissible deficit, and the aggregate development program size before detailed ministry-level negotiations begin.

The release of Budget Circular No. 1 (typically in November or December) formally launches the preparation process. This circular communicates the macroeconomic framework to line ministries, specifies the format for their budget submissions, and sets the revenue and ADP ceilings within which they must work. A critical feature of this circular is whether it communicates binding ceilings or indicative guidelines: binding ceilings represent a top-down budgeting approach that constrains ministry demands, while indicative guidelines invite unconstrained requests that must then be cut, a process that consumes enormous administrative time and generates political friction.

Bangladesh shifted toward indicative ceilings as part of the Medium Term Budgetary Framework reform, but the implementation has been partial. In practice, many ministries continue to submit demands significantly in excess of their realistic allocations, anticipating that bargaining will reduce their requests and reasoning that starting higher gives them more room to absorb cuts.

The January to March period involves bilateral negotiations between the Finance Division and individual ministries. In these sessions, ministry finance officers defend their spending proposals against Finance Division scrutiny. The quality of these negotiations depends heavily on the analytical capacity of both sides: Finance Division officials who understand the technical substance of ministry programs can ask probing questions about efficiency and priority, while ministry officials who can demonstrate the developmental impact of their proposals in concrete terms are more likely to secure favorable outcomes. In practice, the negotiations are often dominated by historical precedent: what a ministry received last year becomes the baseline, and the negotiation focuses on the increment.

The NBR revenue estimation process runs in parallel. NBR analysts model revenue projections based on expected growth in taxable economic activity, changes in tax rates and bases proposed for the coming year, administrative improvement targets, and compliance trend data. These projections are inherently uncertain, and the degree to which NBR estimates reflect genuine analysis versus political targets set by the Finance Division is a perennial debate in Bangladesh's fiscal policy community. The IMF, in its Article IV consultations and program reviews, has repeatedly flagged Bangladesh's revenue targets as systematically over-optimistic relative to actual collection capacity.

April and May constitute the final integration phase, in which the Finance Division assembles the complete budget document: the revenue budget (covering administrative expenditure of all ministries and departments), the development budget (the ADP), the financing plan (covering how the deficit will be funded from domestic and foreign sources), and the Finance Bill (containing tax proposals). The Budget Speech is drafted, typically by the Finance Minister or Finance Adviser personally, and often reviewed at the Prime Minister's or Chief Adviser's level.

Parliamentary presentation occurs in late May or early June. In Bangladesh's constitutional framework, the Annual Financial Statement is presented to parliament through the Finance Minister's (or Finance Adviser's) budget speech, followed by tabling of the detailed budget documents. Parliamentary debate typically runs for several weeks, with the budget finally approved before the start of the fiscal year on July 1.

4.4 A New Doctrine: The Doctrine of Preparatory Realism

The single most consequential methodological failure in Bangladesh's budget preparation history has been what this textbook identifies as the systematic preference for Aspirational Budgeting over Preparatory Realism.

Aspirational Budgeting is the practice of constructing revenue targets, development program sizes, and growth projections at levels that represent the best conceivable outcomes rather than the most probable ones. It is driven by a combination of political incentives (ambitious numbers

communicate ambition and generate favorable press coverage), institutional dynamics (the Finance Division's authority partly rests on its ability to present a large and growing budget), and donor relations considerations (showing a growing development program helps attract and maintain aid commitments).

The costs of aspirational budgeting accumulate through the fiscal year: when revenue falls short of the target, the government must either cut spending mid-year (creating project delays and service disruptions), increase borrowing (worsening the debt position), or simply let the budget deficit run above projections (with monetary and inflationary consequences). When the development program is set above realistic execution capacity, the result is the chronic ADP under-implementation that has characterized Bangladesh's fiscal record for decades.

The Doctrine of Preparatory Realism holds that budget methodology must be anchored in the following principles: revenue targets should be set at the median of a distributional forecast based on historical collection efficiency, current-year trends, and administrative capacity constraints; development program size should be calibrated not to the theoretical maximum of available financing but to the demonstrated absorptive capacity of implementing agencies, as measured by multi-year implementation performance data; growth projections should be presented as a range reflecting uncertainty rather than as a single authoritative number; and all contingent liabilities, including government guarantees of state-owned enterprise debt, should be transparently disclosed as part of the fiscal framework.

Preparatory Realism does not mean fiscal pessimism. A budget can be ambitious in its objectives while being realistic in its projections. The difference lies in the honest acknowledgment of risk and uncertainty, the construction of contingency plans for adverse scenarios, and the acceptance that a budget that sets achievable targets and achieves them is a more successful fiscal document than one that sets grandiose targets and misses them systematically.

4.5 The Medium Term Budgetary Framework: Promise, Practice, and Persistent Gaps

The Medium Term Budgetary Framework (MTBF), formally introduced in Bangladesh in 2009 following a pilot phase in selected ministries from 2004, was designed to shift the budget from a single-year, input-focused document to a multi-year, output-oriented framework. The MTBF requires ministries to articulate their strategic objectives, map their programs and activities to those objectives, and project their resource requirements and expected outputs over a rolling three-year horizon.

In theoretical terms, the MTBF offers significant advantages over traditional line-item annual budgeting. By requiring medium-term projections, it encourages ministries to think beyond the annual cycle and consider the sustainability of their spending commitments. By requiring output specification, it creates a basis for performance evaluation that line-item budgeting lacks. By rolling forward annually, it enables learning: ministries can adjust their projections based on actual performance in previous years.

Bangladesh's experience with the MTBF has been instructive in documenting the gap between institutional design and institutional reality. Several problems have limited its effectiveness.

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First, the medium-term projections produced by ministries under the MTBF have rarely been genuinely integrated into budget negotiations. The bilateral negotiations between Finance Division and ministries have continued to focus primarily on the first-year allocation, treating the outer years of the medium-term framework as indicative at best. This means the MTBF has added a layer of documentation requirements without substantially changing the incentives or practices of budget negotiation.

Second, the output indicators specified in MTBF documents have often been inputs or processes rather than genuine outcomes. A ministry might specify as an output "number of training programs conducted" rather than "skill level of beneficiaries after training" or "employment rate of trained persons." This displacement of outcomes by outputs, and of outputs by inputs, reflects the genuine difficulty of measuring what governments actually produce, but it also reflects institutional convenience: input and process metrics are easier to satisfy and harder to contest than genuine outcome measurements.

Third, the MTBF has not been connected to the ADP project planning process in a systematic way. Large development projects, which represent the single most consequential spending decisions in the budget, are approved through the Development Project Proforma (DPP) process managed by the Planning Commission, which operates under separate institutional logic and timeline from the MTBF cycle managed by the Finance Division. The result is a structural disconnection between the medium-term fiscal framework and the investment pipeline that most determines the fiscal trajectory of the medium term.

The FY2025-26 budget, prepared under the interim government's Finance Adviser Dr. Salehuddin Ahmed, represented a partial departure from the MTBF framework in the sense that the extreme fiscal pressure of the moment, driven by debt service costs, revenue shortfalls, and IMF conditionalities, required more rapid and pragmatic decision-making than the formal MTBF process supports. The budget was, in many respects, a crisis budget constructed under conditions of fiscal emergency rather than a deliberative medium-term planning exercise.

4.6 The Role of Technology in Budget Preparation: iBAS++ and Beyond

The Integrated Budget and Accounting System (iBAS++) represents the most significant technological transformation in Bangladesh's budget preparation and execution infrastructure since the advent of computerized accounting in the 1990s. Developed with donor support and progressively expanded from the late 2000s, iBAS++ provides a unified electronic platform through which line ministries submit their budget proposals, the Finance Division reviews and approves allocations, treasury payments are authorized and recorded, and expenditure data is consolidated into real-time fiscal reports.

The impact of iBAS++ on the quality of Bangladesh's fiscal management is real but unevenly distributed. In ministries with strong technical capacity and full iBAS++ integration, the system has dramatically improved the timeliness and accuracy of expenditure data, reduced unauthorized payments, and supported better cash flow management. In ministries with weaker capacity or incomplete integration, the system remains partially implemented, with some

transactions still processed outside the platform or entered with delays that reduce the quality of real-time fiscal reporting.

A significant limitation of iBAS++ is that its coverage of local government finance remains incomplete. Bangladesh's local government system, including City Corporations, Municipalities (Pourashavas), and Union Parishads, receives substantial transfers from the national budget but maintains its own separate accounting systems. The local government finance reform agenda, which includes greater fiscal decentralization and improved local accountability, has been a longstanding priority on paper that has made limited practical progress.

The use of artificial intelligence and machine learning in budget preparation represents a frontier that Bangladesh has begun to explore, though primarily at the level of policy discussion rather than practical implementation. Advanced economies and some middle-income countries have begun using predictive analytics to improve revenue forecasting, machine learning to identify tax compliance gaps, and natural language processing to analyze the impact of budget proposals on media and public sentiment. Bangladesh's NBR, as part of its IMF-supported digital transformation agenda, has initiated a project to modernize its tax administration systems, including the development of e-return and e-payment infrastructure. The separation of tax policy from tax administration within the NBR, formalized in 2025, is an institutional prerequisite for the kind of professional, data-driven tax administration that modern fiscal technology can support.

4.7 Exam Questions: Chapter Four

Questions for BEcon Examination

Describe the four primary institutional actors in Bangladesh's budget preparation process. What are the most important information asymmetries between them, and how do these asymmetries affect budget quality? (15 marks)

What is the difference between Aspirational Budgeting and Preparatory Realism as concepts in budget methodology? Using specific data from Bangladesh's fiscal record between 2015 and 2025, demonstrate how aspirational budgeting has produced systematic errors in fiscal management. (20 marks)

Explain the Medium Term Budgetary Framework and its theoretical advantages over traditional line-item budgeting. Why has Bangladesh's MTBF been less effective in practice than in theory? Suggest three specific reforms that could strengthen the MTBF's practical impact. (15 marks)

What role does the annual Budget Circular play in initiating the budget preparation cycle? Explain what it contains and why the choice between binding ceilings and indicative guidelines matters for budget outcomes. (10 marks)

Questions for BSS (Economics) Examination

The bilateral negotiations between the Finance Division and line ministries are described as dominated by historical precedent. Explain what is meant by this and why it represents a methodological weakness. What alternative negotiating framework would produce better resource allocation outcomes? (12 marks)

Describe the iBAS++ system and evaluate its impact on Bangladesh's budget preparation and execution. What are its principal limitations and how might they be addressed? (10 marks)

Define the Fiscal Preparation Cycle as conceptualized in this chapter. In what key ways does this definition differ from the standard administrative account of budget preparation? (8 marks)

Questions for MSS (Economics) Examination

Using principal-agent theory, analyze the information asymmetries between the Finance Division (as principal) and line ministries (as agents) in Bangladesh's budget preparation process. What incentive structures and institutional mechanisms could reduce the welfare costs of these asymmetries? (25 marks)

Critically evaluate Bangladesh's MTBF reform experience in the context of the broader literature on Medium Term Expenditure Framework (MTEF) implementation in developing countries. What does the Bangladesh experience teach us about the conditions under which MTEF-type reforms can succeed? (25 marks)

The Doctrine of Preparatory Realism holds that budget methodology should be anchored in realistic rather than aspirational targets. Analyze the political economy reasons why governments systematically resist preparatory realism, and design an institutional framework that could shift budget preparation toward greater realism without sacrificing developmental ambition. (30 marks)

CHAPTER FIVE: ECONOMIC MODELING IN NATIONAL BUDGET PREPARATION

5.1 A New Definition: Fiscal Modeling

Economic modeling in budget preparation is conventionally described as the application of quantitative techniques to estimate the macroeconomic consequences of government revenue and expenditure decisions. This definition captures the technical function of models but omits their epistemological status: what does a budget model actually know, and how confident should its users be in its outputs?

This textbook proposes a richer definition. Fiscal Modeling is the structured, explicit, and revisable process of quantifying the relationships between fiscal instruments and economic outcomes, under stated assumptions about behavioral responses, institutional capacities, and exogenous conditions, for the purpose of improving the information base available to budget

decision-makers, while acknowledging that the models produce probability distributions over outcomes rather than certainties.

Three features of this definition deserve attention. First, the requirement that assumptions be stated explicitly distinguishes genuine fiscal modeling from the informal numerical reasoning that often passes for economic analysis in budget documents. A revenue projection that assumes 15 percent growth in VAT collections without specifying whether that assumption reflects expected economic growth, improved compliance, rate changes, or some combination is not a model in any meaningful sense. It is a number in search of a rationale.

Second, the acknowledgment that models produce probability distributions rather than certainties is philosophically important and practically consequential. The Bangladesh budget has historically been presented to parliament with highly precise numerical targets (NBR revenue of exactly Tk 4,99,000 crore for FY2026, for example) that convey a spurious precision. A more epistemically honest budget presentation would communicate these as central estimates with confidence intervals, signaling to parliament, investors, and citizens that fiscal outcomes involve genuine uncertainty.

Third, the framing of models as tools to improve information available to decision-makers, rather than as machines that generate correct answers, positions the model appropriately in the decision-making process. Models are not oracles. They are structured arguments about causal relationships that help decision-makers think more clearly about the consequences of their choices. The difference between the two framings has enormous practical consequences: an oracle is followed blindly, while a structured argument is examined, questioned, and improved.

5.2 The Macroeconomic Framework Model

The central quantitative tool in Bangladesh's budget preparation is the Macroeconomic Framework (MF), a medium-term model of the economy that projects the key fiscal and macroeconomic variables over a three to five year horizon. The MF is prepared jointly by the Finance Division and Bangladesh Bank, with inputs from the Bangladesh Bureau of Statistics, the Planning Commission, and the IMF (which provides its own parallel projection that serves as an important cross-check).

The MF model in Bangladesh, as in most developing countries using IMF-supported fiscal frameworks, is structured around four inter-related accounts: the national income accounts (GDP, consumption, investment, exports, imports); the government fiscal accounts (revenues, expenditures, deficit, financing); the monetary accounts (money supply, credit, interest rates); and the balance of payments (current account, capital flows, reserve changes). These four accounts are not independent: a change in fiscal policy (say, an increase in the deficit financed by domestic borrowing) has consequences for monetary conditions (through its impact on credit availability and interest rates) and the external balance (through its impact on import demand and exchange rates). The MF model makes these linkages explicit, allowing analysts to trace the consequences of fiscal choices through the economy.

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The quality of Bangladesh's MF model has improved significantly over the past decade, supported by IMF technical assistance and the broader improvement in the country's statistical infrastructure. However, several structural limitations remain. The model's representation of the informal economy, which accounts for an estimated 30 to 40 percent of GDP, is necessarily weak because informal sector data is sparse and unreliable. The model's treatment of the financial sector, particularly the behavior of state-owned commercial banks (which dominate Bangladesh's banking system), is insufficiently sophisticated to capture the dynamics of banking sector stress, a significant limitation given the banking sector crisis of 2022 to 2025. And the model's assumptions about private investment behavior are based on aggregate data that may not adequately capture the micro-level dynamics of investment decision-making in Bangladesh's particular institutional environment.

5.3 Revenue Forecasting Models

Revenue forecasting is arguably the most consequential, and the most difficult, quantitative exercise in budget preparation. An overestimate of revenue leads to an understatement of the true deficit, excessive spending commitments, and eventual mid-year compression. An underestimate leads to conservative budgeting that may leave productive public investment underfunded.

Bangladesh's NBR uses several approaches to revenue forecasting, with different techniques applied to different tax types.

For income tax, the primary forecasting approach involves projecting the growth in taxable income based on the macroeconomic growth projection, adjusting for changes in the tax base structure (such as changes in the proportion of formal employment), and applying assessment of compliance improvement based on administrative reform targets. The fundamental challenge is that Bangladesh's income tax system is characterized by a very narrow base: of approximately 10 million registered taxpayers in 2025, only 30 to 35 percent are genuinely compliant, and a substantial fraction of total income tax revenue is collected from a small number of large corporate taxpayers and salaried employees in the formal public and private sector. The personal income of self-employed professionals, small business owners, and the informal sector is largely untaxed, representing a massive base that yields very little revenue.

For VAT, the forecasting approach begins with an estimate of total consumption expenditure (the broadest VAT base), applies adjustments for the extensive system of exemptions and reduced rates that characterizes Bangladesh's VAT structure, and projects compliance improvement based on administrative targets. The VAT system introduced in 1991 and reformed in 2012 (the VAT and Supplementary Duty Act 2012, implemented with significant delays) theoretically covers all goods and services at a standard rate of 15 percent. In practice, the effective rate is much lower because of the extensive system of exemptions (for basic food items, agricultural inputs, health services, and education), the practice of reduced rates for specific sectors, and compliance gaps at all levels of the supply chain.

A new analytical concept relevant here is the VAT Efficiency Ratio (VER), which this textbook defines as the ratio of actual VAT revenue to the revenue that would be collected if VAT were applied at the standard rate to the entire consumption tax base without exemptions. Bangladesh's

VER is estimated at approximately 40 to 45 percent, meaning that the VAT system collects less than half of what it would collect under theoretically complete coverage. This gap reflects both policy choices (deliberate exemptions for equity and political economy reasons) and administrative failures (evasion, under-reporting, and corruption). Separating these two components and designing policies to address each requires sophisticated revenue modeling that Bangladesh's tax administration is only beginning to develop.

For customs duties, forecasting is driven by projections of import volume and value, the composition of imports (different categories attract different duty rates), and any planned changes to duty rates and structures. Bangladesh's customs revenue has been structurally declining as a proportion of total revenue, reflecting the trade liberalization program (reduction in average tariff rates), the growth of duty-free import channels for export-oriented industries (particularly the bonded warehouse system for the garment sector), and the challenge of accurate valuation of imported goods, particularly where transfer pricing and undervaluation remain significant problems.

5.4 Computable General Equilibrium Models in Bangladesh

Computable General Equilibrium (CGE) models represent the most sophisticated tool in the fiscal economist's analytical toolkit. A CGE model constructs a mathematical representation of the entire economy as a system of interacting markets, in which producers maximize profits, consumers maximize utility, and all markets clear simultaneously. When the government changes a tax rate, a CGE model can trace the consequences through all markets: the direct effect on prices, the behavioral responses of producers and consumers, the effects on factor markets (wages and returns to capital), the distributional consequences across income groups, and the macroeconomic equilibrium effects.

CGE modeling has been applied to Bangladesh's fiscal policy questions by researchers at the Bangladesh Institute of Development Studies (BIDS), the South Asian Network on Economic Modeling (SANEM), and various international research institutions including the World Bank and the International Food Policy Research Institute. These studies have produced important insights into the distributional consequences of tax reform, the economic impact of different patterns of public investment, and the effects of trade liberalization.

The SANEM microsimulation model, developed with support from the UK Foreign Commonwealth and Development Office and progressively refined through the 2010s and 2020s, links a CGE model of the Bangladesh economy with household-level data from the Household Income and Expenditure Survey (HIES) to trace the impacts of fiscal policy changes on the incomes and welfare of different household groups. This model has been used to analyze, for example, the distributional consequences of VAT rate increases, the welfare effects of fuel subsidy removal, and the poverty impact of social protection program expansion. Its outputs have informed World Bank policy recommendations and academic research on Bangladesh's fiscal system, though its integration into the government's own budget preparation process has been limited.

A new principle relevant to the use of CGE and microsimulation models in budget preparation is the Principle of Model Transparency: any quantitative model used to inform budget decisions should be documented in sufficient detail that independent analysts can understand its structure, evaluate its assumptions, and replicate its results. Bangladesh currently lacks a formal model transparency standard for government budget models. The Finance Division's macroeconomic framework is not publicly documented in a form that enables replication or independent critique, which limits the ability of civil society researchers and parliamentary analysts to hold the government accountable for the quality of its modeling.

5.5 Debt Sustainability Analysis

One of the most critical modeling exercises in budget preparation is Debt Sustainability Analysis (DSA), which assesses whether the government's current and projected debt trajectory is sustainable: that is, whether the debt-to-GDP ratio will converge to a stable level rather than growing without bound.

Bangladesh's DSA is conducted by the Finance Division in collaboration with the IMF, using the Fund's Low-Income Country Debt Sustainability Framework (LIC-DSF), which specifies standardized stress tests and sustainability thresholds. The LIC-DSF distinguishes between external public debt (owed to foreign creditors) and total public debt (including domestic borrowing), and applies different thresholds to each.

As of 2025, Bangladesh's total public debt stands at approximately 36 to 38 percent of GDP, a level that is within standard sustainability thresholds. However, several features of Bangladesh's debt position deserve careful analysis. The composition of debt has shifted significantly over the past decade: the proportion of concessional external loans (which carry low interest rates and long repayment periods) has declined relative to the proportion of domestic borrowing (which is at market interest rates and shorter maturities) and commercial external borrowing (which carries higher rates than traditional development finance). This shift in composition, driven by Bangladesh's rising income level (which reduces eligibility for the most concessional lending) and the scaling up of infrastructure investment financed through non-concessional channels, has increased the interest burden on the budget.

The interest payment burden is perhaps the most alarming feature of Bangladesh's current fiscal position. In FY2025-26, interest payments are projected at Tk 1,13,500 crore, representing approximately 16.8 percent of the total budget and about 22 percent of the revenue budget (the non-development budget). This means that more than one-fifth of every taka collected in revenue before the budget is even opened is pre-committed to interest payments, leaving a significantly compressed space for both development spending and operating expenditure. The IMF's program conditions explicitly address this: the requirement for fiscal consolidation and reduced domestic borrowing is partly driven by the need to stabilize the interest burden before it reaches levels that trigger genuine fiscal crisis.

A new concept introduced here is Debt Behavioral Threshold: the level of the debt service ratio (interest plus principal payments as a proportion of revenue) at which the government begins to cut genuinely productive spending (health, education, infrastructure) rather than politically

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protected spending (civil service salaries, subsidies with organized constituencies), creating a self-reinforcing cycle in which reduced productive spending weakens growth, reduces the future revenue base, and worsens the debt position. Bangladesh appears to be approaching this threshold, as evidenced by the cuts to the ADP and to health and education allocations in the FY2026 budget that were driven primarily by debt service pressure rather than by any evidence-based assessment that those sectors had been adequately funded.

5.6 Fiscal Multiplier Analysis

Fiscal multipliers measure the effect of a change in government spending or taxation on economic output. If the government increases spending by Tk 100 and the economy's output increases by Tk 120, the spending multiplier is 1.2. If the economy's output increases by only Tk 60, the multiplier is 0.6.

The magnitude of fiscal multipliers varies systematically with the state of the economy, the type of spending or tax change, the monetary policy stance, and the openness of the economy. Research surveyed by the IMF and World Bank suggests that:

Multipliers are larger when the economy is in recession and monetary policy is constrained (near the zero lower bound on interest rates) than when the economy is near full employment and monetary policy is accommodative. Bangladesh's fiscal multipliers during the COVID-19 shock of 2020 were likely higher than in normal times.

Spending multipliers are generally larger than tax cut multipliers, and among spending categories, public investment multipliers tend to be larger than transfers or subsidies, because investment increases productive capacity rather than merely supporting current consumption.

In open economies with flexible exchange rates, fiscal multipliers tend to be smaller because a fiscal expansion appreciates the currency, reducing net exports and partially offsetting the domestic demand effect. Bangladesh's exchange rate policy during 2022 to 2024, which resisted depreciation for extended periods before eventually adjusting, complicated the relationship between fiscal and external balance in ways that standard multiplier analysis does not fully capture.

For Bangladesh specifically, the empirical evidence on fiscal multipliers is relatively thin. BIDS and SANEM researchers have produced estimates suggesting that infrastructure spending multipliers in Bangladesh are in the range of 1.2 to 1.8 over a three-year horizon, reflecting the country's significant infrastructure deficit (meaning that each unit of infrastructure investment generates above-average returns because it relieves binding bottlenecks). Social protection spending multipliers are estimated at lower levels, around 0.7 to 0.9, reflecting the higher import propensity of transfer recipients and the imperfections in targeting that reduce the proportion of transfers reaching genuinely poor households.

These multiplier estimates have important implications for budget design. If infrastructure spending has a multiplier of 1.5 and the ADP cut in FY2026 reduces infrastructure spending by Tk 35,000 crore, the implied output loss is Tk 52,500 crore, or approximately 0.8 percent of

GDP. This is not a small number, and it suggests that the fiscal consolidation strategy embodied in the FY2026 budget carries significant growth costs that should be transparently acknowledged in the budget's analytical framework.

5.7 Revenue Elasticity and Buoyancy Analysis

Revenue elasticity measures the responsiveness of tax revenue to changes in GDP: an elasticity greater than one means that revenue grows faster than GDP, providing an automatic improvement in the fiscal position as the economy expands. Buoyancy is the empirical measure of the total response of revenue to GDP growth, including both the automatic elasticity effect and the effects of discretionary changes in tax rates and bases.

Bangladesh's tax revenue elasticity has historically been estimated at around 1.0 to 1.2 for the tax system as a whole, meaning that a 1 percent increase in GDP produces approximately a 1.0 to 1.2 percent increase in tax revenue, slightly more than proportionate. This is lower than the elasticities observed in more sophisticated tax systems where progressive income taxes and broad VAT bases produce strong automatic revenue growth.

The weakness of Bangladesh's revenue elasticity reflects structural features of the tax system: the dominance of indirect taxes (which tend to be less progressive and have lower elasticity than income taxes), the large informal sector (which does not contribute proportionately to formal tax revenue as the economy grows), and the extensive system of exemptions and special regimes that erode the efficiency of the tax base. Improving revenue elasticity is thus both a technical challenge (designing more responsive tax instruments) and an institutional challenge (building the administrative capacity to capture revenue from growing sectors that currently escape the tax net).

A new doctrine relevant here is the Doctrine of Structural Revenue Reform: the principle that sustainable improvement in a developing country's revenue position can only be achieved through simultaneous attention to three dimensions: tax policy reform (simplifying rates, broadening bases, reducing exemptions), tax administration reform (digitization, risk-based audit, enforcement capacity), and taxpayer behavior change (reducing social tolerance for evasion, improving voluntary compliance). Bangladesh's Medium and Long-Term Revenue Strategy (MLTRS), published in May 2025, represents an important attempt to operationalize this doctrine, though its implementation remains at an early stage.

5.8 Exam Questions: Chapter Five

Questions for BEcon Examination

Define Fiscal Modeling as conceptualized in this chapter. Why is it important that budget models produce probability distributions rather than precise point estimates? Illustrate your answer with reference to Bangladesh's revenue forecasting experience. (15 marks)

What is the VAT Efficiency Ratio and what does Bangladesh's VER of approximately 40 to 45 percent indicate about the performance of the VAT system? Identify two policy and two administrative measures that could improve the VER. (12 marks)

Explain the concept of Debt Behavioral Threshold. Based on Bangladesh's current fiscal data, assess whether the country is approaching this threshold and what the consequences would be if it crosses it. (15 marks)

Questions for BSS (Economics) Examination

Explain the structure of the Macroeconomic Framework model used in Bangladesh's budget preparation. What are its three most important structural limitations and how do they affect the reliability of the budget's macroeconomic projections? (15 marks)

Distinguish between revenue elasticity and revenue buoyancy. What do Bangladesh's estimated elasticity values of 1.0 to 1.2 indicate about the structural characteristics of the tax system? (10 marks)

Questions for MSS (Economics) Examination

Critically evaluate the Computable General Equilibrium approach to fiscal policy analysis in the Bangladesh context. What are its theoretical strengths and what are the most important limitations imposed by the quality of Bangladesh's economic data? (20 marks)

Fiscal multipliers in Bangladesh are estimated to be larger for infrastructure spending than for transfer payments. Using macroeconomic theory and empirical evidence, explain why this difference exists and evaluate its implications for the optimal composition of the FY2026 ADP. (25 marks)

The Doctrine of Structural Revenue Reform holds that sustainable revenue improvement requires simultaneous attention to tax policy, tax administration, and taxpayer behavior. Critically evaluate Bangladesh's progress on each of these dimensions in the period 2022 to 2026, drawing on IMF program reviews and NBR data. (30 marks)

CHAPTER SIX: BUDGET ASSESSMENT TECHNIQUES

6.1 Defining Budget Assessment: A Multi-Dimensional Framework

Budget assessment, in the conventional academic and practitioner literature, refers to the evaluation of a budget's technical adequacy, fiscal sustainability, and alignment with stated policy objectives. It involves analyzing whether the revenue projections are realistic, whether the expenditure allocations are consistent with the government's stated priorities, and whether the financing plan is macroeconomically stable. This is important, but insufficient.

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This textbook proposes a Multi-Dimensional Budget Assessment Framework (MDBAF) that evaluates a budget across five distinct but interrelated dimensions, each of which illuminates a different aspect of fiscal quality.

The first dimension is Technical Fiscal Quality: does the budget rest on realistic macroeconomic assumptions, adequately estimated revenue projections, consistent expenditure arithmetic, and a financing plan that is genuinely implementable? This dimension focuses on internal consistency and empirical accuracy.

The second dimension is Allocative Quality: does the budget direct resources toward the activities and programs where they will produce the highest social return, given the government's stated objectives and the empirical evidence on program effectiveness? This dimension focuses on the wisdom of the choices made among competing uses of scarce public resources.

The third dimension is Distributional Quality: does the budget advance or retard progress toward a fairer distribution of income, wealth, and access to public services? This requires analysis of the incidence of both taxes (who actually bears the burden) and expenditures (who actually benefits), across income levels, gender, geography, and generation.

The fourth dimension is Institutional Quality: is the budget the product of a process that is transparent, participatory, effectively scrutinized, and accountable? A technically sound budget produced through an opaque, captured process is institutionally poor even if its numbers are correct, because it cannot be trusted to reflect genuine public priorities and cannot be effectively monitored.

The fifth dimension is Dynamic Quality: does the budget strengthen or weaken the institutional, human capital, and physical infrastructure that will determine the economy's and the fiscal system's performance in future years? A budget that achieves short-term consolidation by cutting education, health, and institution-building expenditures is dynamically poor even if it is technically sound in the short run.

6.2 The Public Expenditure and Financial Accountability Framework

The Public Expenditure and Financial Accountability (PEFA) framework is the international standard for systematic assessment of a country's public financial management (PFM) system. Developed jointly by the World Bank, IMF, European Commission, and several bilateral donors, PEFA assesses PFM quality across 31 performance indicators organized around seven pillars: budget reliability (how close actual outcomes are to budget), transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit.

Bangladesh has undergone PEFA assessments in 2010, 2015, and 2021. The trajectory of scores across these assessments shows a mixed picture: improvement in some areas (particularly transparency and reporting, driven by iBAS++ implementation and greater disclosure of fiscal data), stagnation or deterioration in others (particularly budget reliability, reflecting the persistent

gap between projected and actual revenue, and program effectiveness assessment, where results-based management remains poorly developed).

The 2021 PEFA assessment highlighted several areas of particular concern for Bangladesh. Budget reliability scores reflected the systematic pattern of revenue shortfalls and ADP under-implementation. The management of contingent liabilities, particularly the fiscal risks arising from state-owned enterprise debts and government guarantees, received poor scores, reflecting the limited transparency with which these risks are disclosed and managed. External scrutiny and audit scores showed that while the Comptroller and Auditor General's office is functional and produces regular audit reports, the follow-up on audit observations by government entities is weak and the parliamentary Public Accounts Committee lacks the resources and capacity to process and act on audit findings systematically.

A new principle relevant to PFM assessment is the Principle of Asymmetric Reform Attention: the observation that PFM reforms tend to succeed in the domains where technical solutions are relatively straightforward (building accounting software, training budget officers, publishing fiscal reports online) and to stall in the domains where political economy challenges dominate (reducing politically connected contractors' ability to exploit procurement processes, preventing ministry officials from maintaining shadow accounts, and ensuring that audit findings produce genuine accountability rather than pro forma responses). Bangladesh's PEFA trajectory illustrates this principle starkly: the country has made the most progress on the pillars that are most amenable to technical fixes and the least progress on the pillars that require political will.

6.3 Incidence Analysis: Who Pays and Who Benefits

One of the most powerful but underutilized tools of budget assessment in Bangladesh is incidence analysis: the systematic investigation of who actually bears the burden of taxes and who actually receives the benefits of public expenditure, as opposed to who nominally pays or ostensibly receives.

Tax incidence analysis distinguishes between the statutory incidence of a tax (who is legally required to pay it) and the economic incidence (who ultimately bears the burden after behavioral responses and price adjustments are taken into account). A corporation that pays corporate income tax may shift part of its burden to consumers through higher prices, to workers through lower wages, or to shareholders through reduced dividends. Which of these channels dominates depends on the elasticity of demand and supply in relevant markets.

For Bangladesh's major tax instruments, the incidence picture is complex and not fully resolved. VAT, as the dominant revenue source, has statutory incidence on businesses at multiple stages of the supply chain but is intended to be ultimately borne by final consumers. Research on VAT incidence in Bangladesh, most thoroughly conducted through the SANEM microsimulation model, suggests that the VAT burden falls disproportionately on lower and middle-income households, partly because they spend a higher proportion of their income on goods and services that are subject to VAT (while higher-income households save more) and partly because the VAT system in Bangladesh, despite the formal list of exempt food items, does not fully exempt

the consumption basket of the poor. This regressive incidence is partially but not fully offset by the exemption of basic food items and the preferential rate treatment of some necessities.

Expenditure incidence analysis examines who benefits from different categories of public spending. In Bangladesh, systematic expenditure incidence studies have been conducted for major social sector programs by BIDS, the World Bank, and academic researchers. The findings are instructive. Public primary education, when measured by the distribution of school enrollment and the geographic distribution of public schools, is relatively progressive: lower-income households benefit more from public primary education than higher-income households, who are more likely to send their children to private or fee-charging institutions. Public tertiary education, by contrast, is regressive: public universities in Bangladesh charge highly subsidized fees but enroll students who are disproportionately from relatively advantaged households, meaning that the public subsidy to higher education effectively transfers resources upward in the income distribution.

Health expenditure incidence in Bangladesh reveals similar distributional tensions. Public health facilities serve a disproportionately poor clientele, but out-of-pocket costs remain high because public facilities are underfunded and understaffed, leading to significant informal payments and the use of private sector alternatives by those who can afford them. The poorest households thus benefit most in nominal terms from public health spending but receive the worst-quality care and face the highest informal cost burdens relative to income, creating a pattern that this textbook terms Nominal Coverage Poverty: the situation in which poor households are nominally covered by public programs that do not, in practice, provide adequate protection.

6.4 Gender Responsive Budgeting: Theory, Implementation, and Bangladesh's Record

Gender Responsive Budgeting (GRB) is the application of a gender analysis lens to budget preparation and assessment, with the aim of identifying and addressing the differential impacts of fiscal policy on women and men, girls and boys. It does not mean creating a separate women's budget; it means ensuring that mainstream budget decisions systematically consider their gender consequences and that targeted investments in gender equality are adequately resourced.

Bangladesh has been a regional leader in GRB rhetoric but a more ambiguous performer in GRB practice. The Finance Division has produced a Gender Budget Report as an annex to the budget since 2009, identifying allocations in each ministry that are classified as gender-responsive. Over time, the proportion of the budget classified as gender-responsive has grown substantially; in recent years it has exceeded 30 percent of total spending.

However, the classification methodology has been extensively criticized by gender budget analysts. The classification categories are broad and poorly defined, allowing ministries to classify spending as gender-responsive if it involves any activities or programs in which women participate, even if the spending was not designed with gender impacts in mind and does not differentially benefit women. A school construction program, for example, might be classified as gender-responsive simply because girls attend the school, even if the design of the school does not specifically address barriers to girls' enrollment or retention.

A more rigorous assessment of GRB in Bangladesh would focus on three questions. First, do programs explicitly targeting women's economic empowerment, health, and safety receive adequate resources? Here the record is mixed: the Vulnerable Group Development program (which targets women) and maternity benefits for garment workers represent genuine gender-responsive investments, while programs for prevention of gender-based violence and support for women leaving violent relationships remain chronically underfunded.

Second, do mainstream programs incorporate gender analysis in their design and evaluation? Here the record is weak. Major infrastructure programs, while they affect women's lives (improving road access reduces the burden of women who must travel for health care and markets), rarely incorporate gender analysis into their design or measure gender-differentiated outcomes.

Third, does the budget address the unpaid care economy, the predominantly female labor of domestic work, childcare, and elder care that is not counted in GDP but represents a massive economic contribution? On this dimension, Bangladesh's budget remains largely silent, a reflection of the broader failure of fiscal systems globally to recognize and respond to the care economy.

6.5 Value for Money Assessment

Value for Money (VFM) assessment is the practice of evaluating whether public spending produces the maximum achievable outcome for a given level of input, combining three related concepts: economy (acquiring inputs at minimum cost), efficiency (converting inputs into outputs at minimum cost), and effectiveness (converting outputs into outcomes that advance stated objectives).

In Bangladesh, VFM assessment of public spending programs remains in its early stages. The Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning is responsible for evaluating ADP projects, but its capacity and the quality of its evaluations have been widely criticized as inadequate. IMED evaluations have historically focused on physical completion of project deliverables (was the road built? was the school constructed?) rather than on the quality of those deliverables, the outcomes they produce (do students learn more in the new school? has travel time been reduced by the new road?), or the cost-efficiency with which they were produced.

The Bangladesh Public Expenditure Review, conducted periodically by the World Bank and Finance Division, provides sector-level VFM assessments for major spending areas including education, health, social protection, and infrastructure. The 2023 review identified several patterns of systemic inefficiency: high unit costs for public infrastructure construction relative to regional comparators (reflecting procurement weaknesses, political allocation of contracts, and weak project management capacity); large proportions of social protection spending absorbed by administrative costs and leakage rather than reaching intended beneficiaries; and health facilities that are physically constructed but functionally dysfunctional due to inadequate staffing, medicines, and maintenance.

A new concept introduced here is the Fiscal Effectiveness Gap: the difference between the welfare improvement that public spending would produce if it operated at best-practice efficiency and the welfare improvement it actually produces given Bangladesh's institutional constraints. Closing even a portion of the fiscal effectiveness gap would be equivalent to a significant increase in the budget, because the same resources would produce substantially more social value. This suggests that PFM reform, though unglamorous and politically difficult, may offer a higher return to development than budget expansion.

6.6 Program Evaluation Methodologies

Modern budget assessment increasingly relies on program evaluation methodologies drawn from the experimental and quasi-experimental traditions in economics to assess the causal impact of government programs. These methods include Randomized Controlled Trials (RCTs), Difference-in-Differences (DiD) analysis, Regression Discontinuity Design (RDD), and Instrumental Variable (IV) estimation.

Bangladesh has been a significant site of experimental and quasi-experimental program evaluation, partly due to the strength of its NGO sector and research institutions. BRAC, the world's largest NGO, has supported numerous RCTs of its development programs. The International Centre for Diarrhoeal Disease Research, Bangladesh (icddr,b) has conducted rigorous trials of public health interventions. BIDS, SANEM, and the Research and Evaluation Division of BRAC have conducted numerous quasi-experimental evaluations of government programs.

A notable example of program evaluation influencing budget policy in Bangladesh is the evidence on the Vulnerable Group Development (VGD) program. A series of evaluations using matching and DiD methods found that VGD transfers, while reaching genuinely poor women, were insufficient in size to produce meaningful improvements in household consumption or asset accumulation. These findings informed the advocacy for increasing transfer values that preceded the gradual improvements in social protection benefit levels seen from 2015 onward.

The limitation of program evaluation as a budget assessment tool is that it is backward-looking: it evaluates programs that already exist and have been operating long enough to produce measurable outcomes. Budget decisions, by contrast, are forward-looking: they allocate resources to programs before their outcomes are observed. Bridging this gap requires the use of program theories of change (articulation of the causal mechanism by which a program is expected to produce its intended outcomes) and evidence synthesis (drawing on evaluation evidence from comparable programs in Bangladesh and elsewhere to inform predictions about new programs).

6.7 Exam Questions: Chapter Six

Questions for BEcon Examination

What are the five dimensions of the Multi-Dimensional Budget Assessment Framework? Apply each dimension briefly to an assessment of Bangladesh's FY2025-26 budget. (20 marks)

Explain the difference between tax incidence and expenditure incidence. Based on available evidence, is Bangladesh's overall fiscal system (taxes plus expenditures combined) progressive or regressive in its distributional impact? (15 marks)

What is the Fiscal Effectiveness Gap? Estimate its approximate magnitude in Bangladesh's education sector using available data on education spending and learning outcomes. (12 marks)

Questions for BSS (Economics) Examination

Critically evaluate Bangladesh's Gender Responsive Budgeting program. What are the main weaknesses in the current classification methodology and how could a more rigorous GRB system be designed? (15 marks)

Explain what PEFA assesses and describe the key findings of Bangladesh's most recent PEFA assessment. What does the principle of Asymmetric Reform Attention explain about the pattern of those findings? (12 marks)

Questions for MSS (Economics) Examination

Using the Multi-Dimensional Budget Assessment Framework, conduct a systematic evaluation of Bangladesh's FY2025-26 budget. Your assessment should be supported by specific data from the budget and from independent analyses by organizations such as the CPD, SANEM, IMF, and World Bank. (35 marks)

Design a practical Value for Money assessment framework for Bangladesh's Annual Development Programme. Your framework should specify the data requirements, assessment criteria, and institutional arrangements needed to produce credible VFM ratings for major ADP projects. (25 marks)

CHAPTER SEVEN: UNIVERSAL BUDGET RESEARCH METHODS AND THEIR APPLICATION IN BANGLADESH

7.1 A New Definition: Universal Budget Research

Budget research encompasses a methodological field that combines techniques from economics, political science, public administration, sociology, and quantitative data science to understand how governments make fiscal decisions, what the consequences of those decisions are, and how fiscal systems can be improved. Universal Budget Research, as conceptualized in this textbook, is the application of the full spectrum of available research methodologies to the investigation of fiscal phenomena across multiple analytical levels: micro-level (household and firm-level behavioral responses), meso-level (institutional processes and sector-level outcomes), and macro-level (economy-wide and international fiscal dynamics).

The universality in the concept refers not to any claim that a single methodology can answer all fiscal research questions but to the intellectual disposition of using whatever methodological tools are best suited to each question, rather than being constrained by disciplinary or methodological loyalties. A researcher investigating why Bangladesh's ADP implementation rate is consistently below 80 percent should not choose between a quantitative regression analysis of project completion data and a qualitative institutional ethnography of the Planning Commission. Both approaches illuminate different dimensions of the same phenomenon and the richest understanding comes from their combination.

7.2 Quantitative Methods: Regression Analysis, Panel Data, and Time Series

Regression analysis is the workhorse of quantitative budget research. In its most basic form, regression analysis identifies the statistical relationship between a dependent variable (the outcome of interest) and one or more independent variables (the potential determinants of that outcome), after controlling for other factors that might confound the relationship.

In Bangladesh budget research, regression analysis has been applied to a wide range of questions: What determines the sectoral allocation of the budget across years? How do changes in revenue composition affect the level and composition of public expenditure? What is the relationship between ADP project size and implementation rate? How do local government fiscal transfers affect local public service delivery?

Panel data methods, which analyze data across both time and units (ministries, districts, projects), have been particularly useful in Bangladeshi fiscal research because they allow the researcher to control for time-invariant characteristics of the units being studied. A panel regression of ADP project completion rates on project characteristics, implementing agency capacity indicators, and political economy variables can separate the effect of project-level factors from the persistent characteristics of implementing agencies that make some agencies consistently better or worse implementers than others.

Time series methods are essential for analyzing aggregate fiscal dynamics: how revenue and expenditure have evolved over time, the relationship between fiscal policy and macroeconomic variables like growth and inflation, and the detection of structural breaks in fiscal behavior (such as the COVID-19 shock or the post-2024 fiscal consolidation). Vector Autoregression (VAR) models, which allow all variables to be endogenous and trace the dynamic response of all variables to shocks, have been used to analyze the monetary-fiscal interaction in Bangladesh, finding evidence that fiscal expansion tends to generate inflationary pressure with a lag of three to six months.

7.3 Qualitative Methods: Process Tracing, Ethnography, and Discourse Analysis

Quantitative methods illuminate patterns; qualitative methods illuminate processes. Understanding why Bangladesh's budget preparation consistently produces over-ambitious revenue targets requires more than regression evidence showing the pattern. It requires an investigation of the institutional culture of the Finance Division and NBR, the political pressures

that finance ministers face, the incentive structures facing NBR commissioners, and the organizational norms that make presenting cautious estimates professionally risky.

Process tracing is a qualitative method that attempts to identify the causal mechanism linking a purported cause to an observed outcome by tracing the intermediate steps between them. A process tracing investigation of ADP under-implementation in Bangladesh would identify the sequence of institutional steps between project approval and fund disbursement and examine each step for the bottlenecks, delays, and failures that slow implementation. Such an investigation would find multiple contributing mechanisms: the late approval of ADP project lists (which delays the start of implementation in the early months of the fiscal year), procurement procedures that are lengthy and subject to political interference, implementing agency staff who are diverted to administrative duties and poorly incentivized to prioritize project delivery, and a treasury management system that releases funds to ministries unevenly across the fiscal year.

Ethnographic and interview-based methods have been used productively in Bangladesh budget research by scholars interested in the organizational culture of government finance. Research by political scientists including Mushtaq Khan and economists including Selim Raihan on the political economy of Bangladesh's economic governance draws extensively on elite interviews, documentary analysis, and observation of institutional processes. This research has produced insights about the role of informal networks in budget decision-making, the way that political connections shape procurement outcomes, and the relationship between state-business relations and the design of fiscal incentives that no quantitative analysis of budget documents could produce.

Discourse analysis examines the language of budget documents themselves: how do budget speeches frame fiscal decisions? What rhetorical strategies do finance ministers use to make contested choices seem inevitable or optimal? Whose interests and concerns are rendered visible and whose are rendered invisible in the budget document's language? This approach draws on the tradition of critical policy analysis and has produced interesting insights into how Bangladesh's budget speeches have constructed narratives about economic achievement and managed the political framing of austerity or redistribution in different political periods.

7.4 Mixed Methods Research Design in Fiscal Studies

The most productive contemporary fiscal research in Bangladesh, and globally, combines quantitative and qualitative methods in integrated mixed methods designs rather than treating them as alternatives. A mixed methods study of the impact of social protection on poverty in Bangladesh might use a regression discontinuity design to estimate the causal effect of program enrollment on household consumption (quantitative) while also conducting in-depth interviews with beneficiaries and program administrators to understand the mechanisms through which the program affects behavior and the ways in which eligibility criteria and targeting processes work in practice (qualitative). The quantitative component tells us whether the program works; the qualitative component tells us how and why it works, and where the gaps are.

For budget research specifically, a particularly productive mixed methods approach combines fiscal incidence analysis (quantitative) with beneficiary assessment (qualitative). Fiscal incidence analysis identifies the distributional pattern of a program's costs and benefits across income groups; beneficiary assessment investigates the quality of the benefit as experienced by recipients, including the transaction costs of accessing the benefit, the adequacy of the transfer amount, and the dignity of the delivery process. These two dimensions together tell a much fuller story than either alone.

7.5 Big Data and Machine Learning in Fiscal Research

The emergence of large-scale administrative and transactional data offers new possibilities for fiscal research in Bangladesh that were not available even a decade ago. The NBR's move toward e-filing and e-payment, though still incomplete, is generating datasets on taxpayer behavior that can support research on compliance, evasion detection, and the distributional incidence of the informal sector's under-taxation. The iBAS++ platform's expenditure data, aggregated at the project and sub-project level, enables systematic analysis of spending patterns across ministries, districts, and time that was previously impossible with paper-based records. Mobile financial service transaction data (from bKash, Nagad, and other platforms) offers a window into the economic behavior of households that are largely outside the formal financial system.

Machine learning methods applied to these datasets can identify patterns that conventional regression analysis might miss: clustering algorithms can identify groups of taxpayers with similar behavioral profiles for targeted compliance interventions; natural language processing can analyze text in budget documents, audit reports, and parliamentary debates to track the evolution of policy discourse; predictive models can identify which ADP projects are at highest risk of delayed implementation based on their characteristics at the point of approval.

These methods are not without risks. Machine learning models that are trained on historical data may perpetuate historical patterns of discrimination or bias: an algorithm trained to detect tax evasion risk might encode historical patterns in which certain categories of taxpayers are more heavily audited regardless of their actual compliance level. The use of big data in fiscal governance thus requires careful attention to fairness, transparency, and accountability, alongside the technical sophistication needed to build accurate models.

7.6 Comparative Case Study Methods

The comparative case study method, which examines fiscal phenomena in multiple countries to identify commonalities, differences, and the conditions that explain variation, is essential for situating Bangladesh's budget experience in its appropriate international context and drawing lessons from peer country experience.

Bangladesh's most meaningful peer comparators in fiscal research are countries that share its broad developmental profile: post-colonial status, large and predominantly rural poor populations, significant reliance on aid and remittances, and a budget that is being expanded to support an ambitious development agenda with limited domestic revenue capacity. Vietnam,

Cambodia, Ethiopia, Rwanda, and Nepal are commonly cited in this group, along with the more economically advanced but structurally similar India (in particular its poorer states).

Comparative case studies have produced a number of important insights relevant to Bangladesh. Rwanda's experience with program budgeting, implemented more comprehensively and with greater institutional commitment than Bangladesh's MTBF, demonstrates that a serious shift to results-based budgeting requires not merely new forms but changes in bureaucratic culture, hiring practices, and accountability systems that take a generation to embed. Vietnam's experience with tax administration modernization, particularly its highly successful e-filing implementation, offers a more immediately relevant model for Bangladesh's NBR digital transformation, noting that Vietnam's success depended critically on strong political leadership commitment that sustained the reform through early resistance from within the tax administration.

India's experience at the state level is particularly instructive for Bangladesh because several Indian states face fiscal challenges structurally similar to Bangladesh's: Bihar, Uttar Pradesh, and Odisha have large populations, low per-capita incomes, high dependence on central transfers, and limited own-source revenue capacity. Research on fiscal federalism in India provides both methodological approaches and substantive findings that can be adapted to the Bangladesh context, particularly regarding the design of intergovernmental transfer systems and the fiscal conditions under which local governments can effectively deliver public services.

7.7 Exam Questions: Chapter Seven

Questions for BEcon Examination

What is Universal Budget Research and how does it differ from single-discipline approaches to fiscal analysis? Explain with reference to two specific research questions about Bangladesh's budget. (12 marks)

Describe three specific quantitative methods that have been applied in Bangladesh budget research and provide an example of what each method has contributed to understanding Bangladesh's fiscal system. (15 marks)

What are the advantages of mixed methods research design in fiscal studies? Describe a mixed methods research design that you would use to investigate the effectiveness of Bangladesh's social protection programs. (15 marks)

Questions for BSS (Economics) Examination

Explain what process tracing is and how it can be applied to investigate Bangladesh's ADP under-implementation problem. What intermediate causal steps would a process tracing investigation of this phenomenon examine? (12 marks)

How does discourse analysis contribute to understanding budget politics? Apply discourse analysis to the framing of Bangladesh's FY2025-26 budget speech. (10 marks)

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Questions for MSS (Economics) Examination

Design a comprehensive research program to investigate the determinants of tax compliance behavior in Bangladesh's informal sector. Your design should specify the research questions, the methodological approach (including any quantitative, qualitative, or mixed methods components), the data sources required, and the expected policy implications of the findings. (30 marks)

Using the comparative case study method, analyze what lessons Bangladesh can draw from Vietnam's experience with tax administration modernization. Your analysis should identify the conditions under which Vietnam's approach is transferable to the Bangladesh context and the conditions under which adaptation or alternative approaches are required. (25 marks)

CHAPTER EIGHT: HOW TO DRAFT A NATIONAL BUDGET: FROM FIRST PRINCIPLES TO FISCAL YEAR REALITY

8.1 A New Doctrine: The Doctrine of Fiscal Architecture

The process of drafting a national budget is not merely a technical exercise in numerical aggregation. It is an act of fiscal architecture: the construction of a structured framework that must simultaneously satisfy multiple, often conflicting, design requirements: macroeconomic stability, developmental impact, distributional equity, political legitimacy, institutional implementability, and international credibility.

The Doctrine of Fiscal Architecture holds that successful budget drafting requires the budget-maker to design a document that satisfies all of these requirements simultaneously, not as a one-dimensional optimization problem (maximize growth, or maximize equity, or minimize deficit) but as a multi-dimensional design challenge in which the relationships and trade-offs among objectives are explicitly acknowledged and managed.

This doctrine has several practical implications. First, budget drafters must begin with the constraints, not the aspirations. The starting point of fiscal architecture is not a wish list of desired spending but a clear-eyed assessment of what the economy can afford, what administrative capacity can implement, and what the political economy can sustain. Second, fiscal architecture requires a theory of change: a clearly articulated causal logic connecting budget allocations to intended outcomes, through specified delivery mechanisms, making explicit the behavioral assumptions and institutional conditions that must hold for the allocations to produce their intended effects. Third, fiscal architecture demands internal coherence: the macroeconomic framework, the revenue strategy, the expenditure composition, and the financing plan must fit together into a consistent whole, with each element reflecting and reinforcing the others.

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8.2 Step One: Establishing the Macroeconomic Framework

The first step in budget drafting is establishing the macroeconomic framework that will serve as the quantitative anchor for all subsequent decisions. This involves producing projections for the coming fiscal year (and ideally the following two years) for: nominal and real GDP growth; inflation; the current account balance; foreign exchange reserves; private investment; and the broad money supply.

These projections are not independent choices; they are estimates of what the economy will do, conditional on the policies being considered in the budget. The relationship between fiscal policy and macroeconomic outcomes runs in both directions: the economy's performance determines how much revenue the government can collect, while the government's spending and taxation decisions affect the economy's performance. Good macroeconomic framework construction requires iterating between these two directions until a consistent set of projections is achieved.

For Bangladesh's FY2025-26 budget, the macroeconomic framework set a GDP growth target of 5.5 percent, which was above the IMF's projection of approximately 4.7 percent and the World Bank's even more cautious assessment. The inflation target of 7 percent was optimistic given that actual inflation was running at approximately 8 to 9 percent at the time of budget preparation, driven by food price pressures and continued pass-through from previous exchange rate depreciation. These targets were not wrong as aspirations, but they were aspirational rather than central estimates, which means the revenue projections built on them were likely to be too high and the social protection needs based on them likely to be understated.

8.3 Step Two: Setting the Revenue Envelope

Once the macroeconomic framework is established, the second step is determining the total revenue that the government can realistically expect to collect in the coming fiscal year. This involves separate analyses of each major revenue category.

For NBR tax revenue, the starting point is the current year's actual (or revised) revenue out-turn, from which the forecast for the next year is projected. The projection involves three components: the base effect (what the current year's revenue level implies for next year's base); the automatic growth effect (how much revenue will grow simply because the economy grows, given the elasticity of each tax type); and the discretionary effect (the revenue impact of any changes in tax rates, bases, or administrative practices proposed for the coming year).

For non-tax revenue (fees, charges, dividends from state-owned enterprises, and miscellaneous receipts), the estimation is generally simpler and less subject to large errors, but it remains non-trivial. SOE dividends, in particular, are notoriously unreliable as revenue sources, because they depend on the profitability of individual enterprises that face their own operational challenges.

For foreign grants, the estimation depends on donor commitments, which are typically known in advance through the Annual Aid Group meeting and donor coordination processes, adjusted for the historical pattern of disbursement shortfalls relative to commitments.

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The total revenue envelope for FY2025-26 was set at Tk 5,64,000 crore: Tk 4,99,000 crore from NBR sources and Tk 65,000 crore from other sources. This revenue target represented an 8.88 percent increase from the revised target for FY2024-25, which was itself substantially below the original FY2025 target due to revenue shortfalls. Independent analysts noted that the 7.6 percent increase in the NBR target relative to the FY2025 revised estimate was more achievable than previous years' targets, reflecting both the greater realism of the post-uprising interim government and the constraints imposed by IMF conditionality requiring credible revenue targets.

8.4 Step Three: Determining the Deficit and Its Financing

With the revenue envelope set, the next step is determining the permissible deficit and the financing plan. The deficit is the gap between total expenditure and total revenue; the financing plan specifies how this gap will be closed, through domestic borrowing (from banks and non-bank sources) and foreign borrowing (loans from multilateral and bilateral creditors).

In Bangladesh, the deficit ceiling is effectively set through the interaction of three constraints. The first is the IMF program target: the current Extended Credit Facility agreement includes a ceiling on the fiscal deficit as a proportion of GDP, which for FY2025-26 was set at approximately 3.6 percent of GDP. The second is the debt sustainability assessment, which sets an implicit limit on the pace of debt accumulation consistent with long-term fiscal sustainability. The third is the practical constraint of financing availability: there is a limit to how much the government can borrow domestically without crowding out private investment or triggering Bangladesh Bank to accommodate the deficit through monetary creation.

For FY2025-26, the deficit was set at Tk 2,26,000 crore, or approximately 3.62 percent of GDP. Of this, Tk 1,25,000 crore was to be financed from domestic sources (primarily bank borrowing and national savings certificates) and Tk 1,01,000 crore from foreign sources (multilateral loans, bilateral loans, and sovereign bonds). This financing plan represented a significant reduction from the previous year's deficit of approximately 4.6 percent of GDP, reflecting the fiscal consolidation stance imposed by IMF conditionalities and the government's own judgment that the previous year's deficit level was unsustainable.

8.5 Step Four: Allocating Expenditure

With total expenditure defined (revenue plus permissible deficit), the fourth and politically most charged step is allocating expenditure among competing claims. This allocation process involves two separate tracks: the revenue (non-development) budget, which covers the running costs of government including civil service salaries, non-development goods and services, interest payments, and subsidies; and the development budget (ADP), which covers public investment projects.

For the revenue budget, the dominant allocation principle in Bangladesh is what budget analysts call the Base Plus Increment method: each ministry receives approximately what it received in the previous year, plus an increment for salary growth, inflation, and any new programs approved for the coming year. This method is procedurally simple and minimizes inter-ministry

conflict, but it is analytically weak: it does not question whether the historical allocation is appropriate or whether resources should be reallocated from lower- to higher-priority ministries. The result is that the revenue budget in Bangladesh is extremely inertial: its sectoral composition changes very slowly, driven primarily by large decisions about civil service pay and pension systems rather than by strategic reallocation.

Interest payments represent the most inflexible component of the revenue budget: they must be paid or the government faces default. For FY2025-26, interest payments of approximately Tk 1,13,500 crore absorbed 20 percent of the total budget, leaving 80 percent for all other spending. This compression of fiscal space by debt service is one of the defining features of Bangladesh's current fiscal challenge and a major motivation for the fiscal consolidation strategy of the interim government.

For the development budget (ADP), the allocation process is nominally more merit-based: projects are proposed by implementing agencies, reviewed by the Planning Commission against technical and economic criteria, and approved for inclusion in the ADP through the National Economic Council (NEC). In practice, the ADP allocation is shaped by a complex mix of technical assessment, historical commitments to ongoing projects, donor-driven project pipelines, and political priorities including the geographic distribution of investment across constituencies.

A major weakness in the ADP allocation process is the persistence of what is called the project proliferation problem: the ADP contains too many projects for the system's absorptive capacity, with each successive government adding new projects without adequately reviewing and either completing or eliminating old ones. The FY2025-26 ADP contained projects numbering in the hundreds, with many small projects that receive token allocations too small to make meaningful progress. This proliferation dilutes the available resources and management attention across too many investments, slowing implementation everywhere.

8.6 Step Five: Tax Policy Design

Alongside the expenditure allocation, budget drafting requires designing the tax proposals that will be included in the Finance Bill. This involves decisions about: changes to tax rates (VAT rate adjustments, income tax rate modifications, customs duty changes); changes to the tax base (new exemptions or removal of existing ones, new taxpayer categories); administrative improvements (new enforcement measures, penalty structures, compliance incentives); and incentive policies (tax holidays, sector-specific concessions, investment allowances).

For FY2025-26, the tax policy package was shaped primarily by three considerations: the IMF requirement to expand the tax base by reducing exemptions and moving toward a more uniform VAT rate; the need to provide some relief to a population squeezed by high inflation; and the strategic imperative of supporting the priority sectors identified in the budget (technology, agriculture, healthcare). The result was a tax package that simultaneously increased VAT on some goods (construction services, some consumer durables) while reducing it on others (agricultural inputs, pharmaceutical raw materials), reduced income tax for publicly listed companies under certain conditions, and extended tax exemptions for the technology sector.

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8.7 Step Six: Writing the Budget Speech

The budget speech is not merely a presentation of numbers. It is a political document, an economic narrative, and a communication strategy. A well-crafted budget speech does several things simultaneously: it frames the economic context in terms that justify the government's choices; it presents key allocations with sufficient detail to demonstrate specificity and accountability; it acknowledges challenges while maintaining public confidence; and it articulates a vision for the future that connects immediate fiscal decisions to longer-term developmental aspirations.

The FY2025-26 budget speech of Finance Adviser Dr. Salehuddin Ahmed, delivered as a pre-recorded televised address on June 2, 2025 (reflecting the unusual institutional context of an interim non-parliamentary government), was notable for its unusually frank acknowledgment of the difficult fiscal context and its emphasis on "quality over quantity" in public spending. The speech explicitly noted that the budget represented the first nominal decrease in the history of Bangladesh's national budget, framing this not as a failure but as a strategic choice to prioritize implementability and fiscal sustainability over size.

This framing represents a significant departure from the rhetorical convention of Bangladesh budget speeches, which have historically led with the number of new programs, the size of allocations, and the ambition of growth targets, rather than with an honest accounting of constraints and trade-offs. The shift in rhetorical approach reflects both the genuine fiscal emergency facing the country and the different institutional culture of the interim technocratic government relative to elected political governments.

8.8 Exam Questions: Chapter Eight

Questions for BEcon Examination

Describe the six steps of national budget drafting as presented in this chapter. For each step, identify the single most important institutional challenge that Bangladesh faces in executing it well. (20 marks)

What is the Doctrine of Fiscal Architecture? Apply it to evaluate the structural coherence of Bangladesh's FY2025-26 budget: does the budget satisfy the doctrine's requirements for constraint-first thinking, theory of change, and internal coherence? (15 marks)

Explain the project proliferation problem in Bangladesh's ADP. What are its causes and what institutional reforms could address it? (12 marks)

Questions for BSS (Economics) Examination

What is the Base Plus Increment method of revenue budget allocation? What are its procedural advantages and its analytical weaknesses? What alternative allocation method would better serve Bangladesh's developmental priorities? (12 marks)

How were the three competing considerations of IMF conditionality, inflation relief, and sectoral incentive reflected in the tax policy package of the FY2025-26 budget? Were these considerations successfully balanced? (10 marks)

Questions for MSS (Economics) Examination

The project proliferation problem in Bangladesh's ADP has been identified by successive IMED evaluations, CPD analyses, and World Bank Public Expenditure Reviews as a major source of inefficiency in public investment. Design a comprehensive ADP rationalization program that would address this problem over a five-year period. Your design should specify the institutional process for reviewing and culling the existing project portfolio, the criteria for project prioritization, and the political economy strategies needed to overcome resistance from ministries with vested interests in existing projects. (30 marks)

Critically analyze the political economy of tax policy design in Bangladesh. Drawing on specific examples from the FY2026 budget and at least two previous budgets, explain why the tax policy reform agenda consistently moves more slowly than independent analyses recommend. What institutional changes would be needed to accelerate the pace of reform? (25 marks)

CHAPTER NINE: COMPARATIVE NATIONAL BUDGETING: LESSONS FROM OTHER COUNTRIES

9.1 A New Philosophy: Calibrated Comparative Learning

The comparative study of national budgeting practices offers a powerful source of policy learning, but only if the comparison is managed with intellectual discipline. The uncritical transplantation of institutional arrangements from one context to another, without adequate attention to the differences in developmental stage, administrative capacity, political economy, and social context between the source and recipient countries, produces what this textbook terms Institutional Mimicry: the adoption of the formal shell of another country's fiscal institution without the underlying conditions that make it work.

Bangladesh's fiscal history provides multiple examples of institutional mimicry. The MTBF, imported from the United Kingdom's public spending review framework and the World Bank's generic MTEF model, was adopted without the centuries of strong parliamentary tradition, the deep pool of professional civil servants, and the mature civil society oversight capacity that makes the UK framework effective. The VAT system, modeled on European practice, was implemented in an economy with a large informal sector, limited accounting culture, and weak tax administration capacity that made genuine VAT compliance extremely difficult for many businesses.

This does not mean that comparative learning is useless. It means that learning must be calibrated: identifying the core principle underlying another country's successful fiscal practice (rather than just its institutional form), assessing whether that principle can be operationalized

effectively under Bangladesh's specific conditions, and designing the implementation in a manner suited to those conditions rather than simply copying the surface features of the foreign model.

The philosophy of Calibrated Comparative Learning holds that fiscal policy reformers should study international experience systematically but implement selectively and adaptively: taking the principle, not the form; piloting before scaling; building in learning mechanisms; and being prepared to deviate from the imported model when evidence shows it is not working as intended in the local context.

9.2 India: Revenue Federalism, GST, and Medium-Term Fiscal Strategy

India's fiscal experience offers lessons for Bangladesh that are valuable precisely because of both the similarities (large, diverse, post-colonial developing economy) and the differences (federal system, much larger economy, more sophisticated capital markets, stronger civil society) between the two countries.

India's introduction of the Goods and Services Tax (GST) in 2017 represented one of the most ambitious tax reforms in the world's largest democracy: the replacement of a complex, fragmented multi-rate indirect tax system with a unified nationwide consumption tax covering both central and state taxes. The reform required years of negotiation among the central government and 28 state governments, the creation of an entirely new institutional infrastructure (the GST Council, the GST Network, and state GST authorities), and a massive compliance effort involving millions of businesses that had previously operated under simpler systems.

For Bangladesh, India's GST experience offers several specific lessons. First, the design of the rate structure matters enormously: India's GST was initially launched with a complex four-rate structure (5%, 12%, 18%, and 28%) that preserved many of the complications of the previous system, creating significant compliance burden and scope for lobbying over rate assignment. Bangladesh's VAT system, which theoretically has a standard rate of 15% but in practice has a highly complex structure of exemptions, reduced rates, and sector-specific provisions, suffers from similar problems. India's ongoing process of GST rationalization, which has been gradually simplifying the rate structure since 2017, is a model that Bangladesh's NBR could study.

Second, the importance of real-time digital compliance infrastructure cannot be overstated. India's GST Network (GSTN) provides a platform for online filing, invoice matching (which automatically cross-checks input tax credit claims against supplier declarations), and return processing that has, over time, significantly improved compliance. Bangladesh's more limited digital infrastructure for VAT compliance means that the benefits of the invoice-matching system at the heart of modern VAT design cannot be fully realized.

Third, the federal dimension of India's GST, while not directly relevant to Bangladesh's unitary system, offers insights into the governance challenges of managing a large, complex tax system with multiple institutional stakeholders.

India's Medium-Term Fiscal Framework (MTFF), introduced as part of the Fiscal Responsibility and Budget Management Act of 2003 and its subsequent amendments, provides a statutory basis for medium-term fiscal planning at the central government level. India's experience shows that statutory fiscal rules, while valuable as accountability mechanisms, can be suspended under emergency conditions (India's FRBM deficit targets were explicitly waived during the COVID-19 pandemic) without destroying fiscal credibility, provided that the suspension is time-limited and the government communicates a credible path back to compliance. This experience is relevant for Bangladesh's discussion about whether to introduce a fiscal responsibility law.

9.3 Rwanda: Results-Based Budgeting and Institutional Transformation

Rwanda's fiscal transformation since the 1994 genocide represents one of the most dramatic examples of institutional reconstruction in recent history. Starting from an almost complete collapse of public institutions, Rwanda has built a fiscal governance system that scores significantly above its income level on most international assessments of public financial management quality.

Rwanda's program-based budgeting (PBB) system, implemented from the early 2000s, represents a more thoroughgoing version of results-based budgeting than Bangladesh's MTBF. Under Rwanda's system, budget allocations are organized around programs (clusters of related activities that share a common objective) rather than administrative units (ministries or departments). Each program is assigned specific, measurable outcome targets, and budget allocations are explicitly linked to progress toward those targets. Annual performance contracts (imihigo) between local government officials and the presidency create powerful accountability mechanisms for public service delivery.

The Rwanda model has significant limitations that make direct transplantation to Bangladesh inappropriate. Rwanda is a much smaller country with a more homogeneous political culture and a political system in which executive authority is far more concentrated than in Bangladesh's more plural and contestatory democracy. The accountability mechanisms that work under Rwanda's governance model (including the strong presidential oversight through imihigo) would be difficult to replicate in Bangladesh's institutional environment. Nevertheless, the principle of systematically linking budget allocations to outcome targets and creating specific accountability for non-delivery is transferable, and Bangladesh's limited progress in this direction represents an opportunity.

A specific lesson from Rwanda that is highly relevant to Bangladesh concerns the professionalization of public financial management as a career. Rwanda has invested systematically in building a cadre of professionally trained public finance managers through the Rwanda Finance Academy, creating a professional community that values results-based management and is equipped with the technical skills to implement it. Bangladesh's budget officials are technically capable but professionally incentivized toward procedural compliance rather than results achievement; changing this incentive structure requires career path reforms as well as training.

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9.4 Malaysia: Fiscal Consolidation Without Growth Sacrifice

Malaysia's experience with fiscal consolidation following the 1997-98 Asian Financial Crisis, and again following the 2008-09 global financial crisis, offers lessons for Bangladesh's current consolidation challenge. In both episodes, Malaysia faced the need to reduce large fiscal deficits while maintaining growth performance, navigating the tension between fiscal austerity and developmental investment.

Malaysia's approach in both episodes involved what economists have called "growth-friendly consolidation": fiscal adjustment that concentrated cuts on current expenditure (particularly consumption subsidies and less productive transfers) while protecting capital expenditure (public investment). This approach, supported by the theoretical argument that public investment has higher multiplier effects than current expenditure and that cutting investment damages the economy's long-run productive capacity, aimed to achieve fiscal correction without sacrificing growth.

Malaysia's experience with the removal of fuel subsidies in 2014, implemented through a market-based pricing mechanism that replaced fixed-price subsidies with a monthly price adjustment process linked to international market prices, is particularly relevant for Bangladesh's energy subsidy challenge. Bangladesh's energy subsidies, while partially reformed in 2022-2024 through a series of price increases, remain significant and constitute a major source of fiscal pressure. Malaysia's experience shows that politically difficult subsidy reform is feasible if managed carefully: with a clear communication strategy explaining the reform to the public, targeted compensation to lower-income households who are disproportionately affected, and a phased implementation timeline that gives businesses and households time to adjust.

9.5 Vietnam: Tax Administration Modernization and Digital Revenue

Vietnam's experience with tax administration modernization over the past decade is one of the most relevant and successful examples globally for a country in Bangladesh's position. Starting from a similarly low tax-to-GDP ratio, inadequate tax compliance infrastructure, and a large informal sector, Vietnam has achieved a sustained improvement in revenue mobilization through a combination of digital transformation, institutional reform, and taxpayer service improvement.

The core of Vietnam's tax reform success has been the development of a comprehensive electronic tax administration system (eTax) that covers registration, declaration, payment, and refund across all major taxes. The system is designed to minimize the compliance burden on taxpayers while maximizing the government's ability to cross-check information and detect evasion. E-filing adoption in Vietnam reached over 99 percent of corporate taxpayers by the early 2020s, making Vietnam's tax administration among the most digitized in Southeast Asia.

Vietnam's experience highlights several enabling conditions that Bangladesh must develop. Strong political commitment from the highest levels of government was essential: in Vietnam, the Prime Minister personally endorsed the eTax reform and used executive authority to push through the necessary changes in tax law, procedure, and institutional culture. A dedicated reform project team with clear authority and accountability was established within the tax

administration, insulated from the routine business of tax collection. Taxpayer services were dramatically improved, with e-filing designed to be genuinely easier than paper filing, providing a positive incentive for compliance rather than relying exclusively on enforcement.

For Bangladesh, the NBR's current digital transformation initiative, supported by IMF technical assistance and including the development of e-return and e-payment systems and the separation of tax policy from tax administration, represents a step in the Vietnam direction. The success of this initiative will depend critically on whether Bangladesh can replicate the political commitment and implementation discipline that characterized Vietnam's reform.

9.6 Nordic Countries: High Revenue, High Performance, and the Social Contract of Taxation

The Nordic countries, particularly Denmark, Sweden, Finland, and Norway, represent a distinct model of fiscal governance that is often cited but less often carefully analyzed in the context of developing economies. With tax-to-GDP ratios in the range of 40 to 50 percent (compared to Bangladesh's 8 to 9 percent), high-quality public services, and strong institutional trust, the Nordic model appears to offer an aspirational endpoint rather than a practical guide for Bangladesh's immediate fiscal reforms.

However, careful comparative analysis reveals several principles that are relevant even in the very different Bangladesh context. First, the Nordic systems demonstrate that very high levels of taxation are compatible with strong economic performance, challenging the ideological claim that high taxes necessarily stifle growth. In the Nordic case, the conditions that make this compatible include highly efficient tax administration (minimizing compliance costs and evasion), transparent use of revenues (maintaining public trust that taxes are used well), and a social contract of universal public services (meaning that tax payments produce tangible benefits for all income groups, not just the poor). Bangladesh's challenge is building these conditions gradually, starting from a very different base.

Second, the Nordic experience with automatic stabilizers is instructive. These countries' fiscal systems respond powerfully to economic downturns through automatic mechanisms: unemployment benefits expand (increasing spending), income tax revenues fall (reducing revenues), and these automatic changes support demand and incomes without requiring political decisions. Bangladesh's weak social protection system and narrow formal-sector labor market mean that its automatic stabilizers are much less powerful, leaving the economy more exposed to the downside of recessions. Building stronger automatic stabilizers, through universal social protection coverage and more progressive income taxation, is a long-run agenda that the comparative evidence strongly supports.

Third, the Nordic practice of long-term fiscal planning, including explicit analysis of pension system sustainability and climate-related fiscal commitments, offers a model for extending Bangladesh's fiscal horizon beyond the traditional medium-term framework. Bangladesh's pension system, currently limited to formal public sector employees, faces significant long-run fiscal pressures as the public service pension liability grows; and the fiscal costs of climate adaptation (Bangladesh is one of the most climate-vulnerable countries in the world) will grow

substantially in coming decades. Neither of these long-run fiscal challenges is adequately addressed in Bangladesh's current budget framework.

9.7 Pakistan: A Cautionary Tale of Fiscal Mismanagement

The comparison between Bangladesh and Pakistan, which shared a common political and economic entity until 1971, is particularly instructive because it illuminates the long-run developmental consequences of different fiscal choices. Both countries started from a similar position in 1971; over the subsequent five decades, Bangladesh's fiscal governance has, despite its many weaknesses, been substantially more effective than Pakistan's.

Pakistan's fiscal record is characterized by several persistent pathologies that Bangladesh has generally avoided, though not entirely. Pakistan's military expenditure consistently absorbs 15 to 18 percent of the total budget, crowding out social spending and reflecting the institutional dominance of the military in Pakistan's political economy. Pakistan's tax system is among the most poorly performing in Asia: its tax-to-GDP ratio has rarely exceeded 10 percent despite repeated reform efforts, and its revenue system is characterized by massive exemptions, sector-specific privileges for politically connected interests, and administrative capacity far below what is needed to enforce even the existing tax code.

Pakistan's repeated recourse to IMF bailout programs (at least 23 over its history as of 2025, compared to Bangladesh's relatively limited engagement) reflects a structural fiscal crisis rooted in insufficient revenue mobilization, excessive military spending, energy sector losses, and poorly targeted subsidies. The country's debt position has deteriorated to the point where IMF conditionality has imposed severe austerity measures that have dramatically increased energy prices, generated high inflation, and imposed severe welfare costs on the population.

The comparison highlights that Bangladesh's fiscal trajectory, while far from ideal, represents a genuinely distinct path. Bangladesh has avoided the military fiscal dominance that has drained Pakistan's public resources. Bangladesh has maintained a more pragmatic and reform-oriented relationship with its business sector than Pakistan's politically captured elite bargains. And Bangladesh's social investment, while insufficient by international standards, has produced human development outcomes (literacy, child mortality, maternal health, fertility) that significantly exceed Pakistan's at similar income levels, suggesting that the fiscal resources directed to social sectors have been at least partially effective.

9.8 Exam Questions: Chapter Nine

Questions for BEcon Examination

What is the principle of Calibrated Comparative Learning and how does it differ from institutional mimicry? Give one example of institutional mimicry in Bangladesh's fiscal reform history and explain why it failed to produce the intended results. (12 marks)

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Identify three specific lessons from Malaysia's fiscal consolidation experience that are directly relevant to Bangladesh's FY2025-26 budget challenge. For each lesson, explain how it should be applied in the Bangladesh context. (15 marks)

What enabling conditions made Vietnam's tax administration modernization successful, and to what extent are these conditions present in Bangladesh? (12 marks)

Questions for BSS (Economics) Examination

Compare Bangladesh's fiscal performance with Pakistan's over the fifty-year period since 1971. What specific fiscal policy differences explain the divergence in development outcomes between the two countries? (15 marks)

What is the most important lesson that Bangladesh can learn from Rwanda's program-based budgeting experience? What institutional changes would be needed to implement this lesson in Bangladesh? (10 marks)

Questions for MSS (Economics) Examination

Using the concept of Calibrated Comparative Learning, design a fiscal reform package for Bangladesh that draws on the experiences of India (GST reform), Vietnam (tax administration modernization), and Malaysia (subsidy reform). For each component of the package, specify how the foreign experience has been adapted to Bangladesh's specific institutional, political economy, and developmental context. (35 marks)

Critically analyze the applicability of the Nordic fiscal model to the long-run development of Bangladesh's fiscal system. What elements of the Nordic approach are most and least transferable to Bangladesh's context, and over what time horizon could Bangladesh realistically progress toward a Nordic-style high-revenue, high-performance fiscal system? (30 marks)

CHAPTER TEN: NATIONAL AND INTERNATIONAL CRISIS ASSESSMENT AND BUDGET ALLOCATION

10.1 A New Definition: Fiscal Crisis Topology

Crises, in their fiscal dimension, are not all alike. A fiscal crisis that originates in a domestic demand shock (a banking system collapse, for example) has different dynamics, calls for different fiscal responses, and has different distributional consequences than one originating in an external terms-of-trade shock (such as a commodity price surge). A public health crisis generates specific patterns of expenditure need that differ from an infrastructure crisis or a climate emergency. A political legitimacy crisis, such as the July 2024 uprising in Bangladesh, generates a complex combination of immediate security and economic costs, medium-term institutional disruption, and longer-run opportunities for reform that has no close precedent in the standard fiscal crisis typology.

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This textbook proposes a Fiscal Crisis Topology that classifies crises along three dimensions: origin (internal or external), speed of onset (sudden or gradual), and reversibility (recoverable or permanently damaging). The intersections of these three dimensions produce eight ideal types of fiscal crisis, each with different diagnostic implications, different optimal response strategies, and different long-run fiscal consequences.

An external, sudden, recoverable crisis (such as the 1974 global oil shock or the COVID-19 trade disruption of 2020) calls for rapid countercyclical fiscal support, management of the external balance through reserve deployment and exchange rate adjustment, and preservation of the developmental investments that will drive the recovery. An internal, gradual, recoverable crisis (such as the slow deterioration of Bangladesh's banking sector from 2015 to 2024) calls for a combination of fiscal support for banking system recapitalization and structural reforms to the institutional weaknesses that created the crisis. An external, gradual, potentially irreversible crisis (such as the growing impact of climate change on Bangladesh's coastal and agricultural systems) calls for a long-run adaptation investment strategy embedded in the budget framework, not merely emergency response.

10.2 Crisis Assessment Methodology: The Rapid Fiscal Impact Assessment

When a crisis hits, budget-makers need a rapid, systematic method for assessing its fiscal consequences and designing an appropriate response. This textbook proposes the Rapid Fiscal Impact Assessment (RFIA) methodology, which involves five stages conducted simultaneously or in rapid sequence.

The first stage is crisis characterization: identifying the type of crisis, its severity, its speed of impact on different economic sectors and population groups, and its likely duration. For a crisis like the Russia-Ukraine war's commodity price effects on Bangladesh (which began in early 2022 and continued through 2024), this characterization would have identified it as an external, sudden-onset (though sustained), partially recoverable crisis primarily affecting food and energy import costs, with severe distributional consequences concentrated among the urban poor and rural households with low rice self-sufficiency.

The second stage is macro-fiscal impact estimation: projecting how the crisis changes the revenue position (lower growth reduces tax revenue), the expenditure needs (higher import prices increase subsidy costs), and the financing conditions (external shocks often tighten global capital market conditions, increasing the cost of borrowing). For the Russia-Ukraine commodity shock, the macro-fiscal impact assessment would have estimated the increase in fuel subsidy costs (roughly Tk 30,000 to 40,000 crore), the increase in fertilizer subsidy costs, the impact of foreign exchange reserve depletion on external debt service costs, and the revenue consequences of slower growth.

The third stage is distributional impact assessment: identifying which population groups are most severely affected and what the implications are for social protection needs. For commodity price shocks, the distributional impact assessment should use household survey data to identify which household types are most exposed to food and fuel price increases (net purchasers of food who lack price-indexed income), how the shock interacts with existing poverty and vulnerability, and

what the coverage gaps in existing social protection systems mean for the adequacy of the government's response.

The fourth stage is response design: developing specific fiscal interventions calibrated to the assessment findings, including cost estimates, implementation mechanisms, and targeting strategies. For Bangladesh's response to the 2022-2024 commodity price crisis, an ideal RFIA would have produced an integrated response including targeted food assistance for the urban poor (where food insecurity was most acute), fertilizer subsidy adjustment to protect smallholder farmers, and investment in domestic gas production to reduce import dependence.

The fifth stage is financing assessment: determining how the crisis response will be financed, given the simultaneous deterioration of the revenue position. Options include domestic borrowing, emergency external assistance (as Bangladesh sought through the IMF program), drawdown of foreign exchange reserves, and reallocation of existing budget resources through supplementary budgets.

10.3 The COVID-19 Pandemic: Bangladesh's Fiscal Response in Retrospect

The COVID-19 pandemic of 2020-2022 provides the most important recent case study of fiscal crisis response in Bangladesh's history. Analyzing this response systematically allows the application of the RFIA framework and the identification of lessons for future crisis management.

The pandemic hit Bangladesh's economy in March 2020 through multiple channels. The garment sector, Bangladesh's export lifeline, faced mass order cancellations from European and American buyers. Remittance flows initially declined as overseas workers lost jobs. The service sector (transport, hospitality, retail) was devastated by mobility restrictions. Agricultural supply chains were disrupted. And the health system faced an unprecedented demand for acute care services for which it was chronically underprepared.

The government's fiscal response involved several elements. The largest package was a set of business-sector stimulus measures totaling approximately Tk 1,03,117 crore (as of September 2020), channeled primarily through the banking system as subsidized working capital loans. These measures were effective in stabilizing large and medium-sized firms in the garment sector and other export industries, preserving the employment base that would otherwise have taken years to rebuild. They were less effective at reaching smaller businesses in the informal sector, which had more limited access to formal credit.

The household-level response was less successful. A cash transfer program targeting 5 million households at Tk 2,500 per household was announced but implemented with significant delays due to the absence of a comprehensive social registry, the limited penetration of mobile financial services in the most remote communities, and administrative bottlenecks in beneficiary identification. The COVID-19 experience exposed the cost of two decades of inadequate investment in digital government infrastructure and universal social protection systems: when a crisis hit that required rapid, targeted cash delivery to millions of poor households, the system was simply not capable of doing it at the needed speed and scale.

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A new concept relevant here is Fiscal Shock Preparedness Capacity (FSPC): the institutional, technical, and financial endowment that enables a government to respond rapidly, effectively, and equitably to a major fiscal shock. Bangladesh's FSPC in 2020 was moderate at best: the government had some fiscal space (the pre-pandemic debt-to-GDP ratio was approximately 34 percent, leaving room for crisis borrowing), a functioning banking system through which business stimulus could be channeled, and a track record of managing export sector crises. But it lacked a comprehensive social registry, adequate digital delivery infrastructure, and pre-positioned emergency social protection systems that could be rapidly scaled up. Building Fiscal Shock Preparedness Capacity is one of the most important long-run fiscal investments a developing country can make.

10.4 The Russia-Ukraine War and Global Price Shocks: Bangladesh's External Crisis Experience

The Russian invasion of Ukraine in February 2022 triggered a global commodity price surge that hit Bangladesh with exceptional force, given the country's dependence on imported fuel, food, and fertilizer. Bangladesh imports essentially all of its petroleum products, substantial quantities of wheat (a staple food for the urban population), and large amounts of urea and other fertilizers needed for rice and vegetable cultivation.

The commodity price surge increased Bangladesh's import bill dramatically, contributing to a severe current account deficit that rapidly depleted foreign exchange reserves. From a peak of approximately USD 48 billion in August 2021 (gross reserves), Bangladesh's reserves fell to below USD 20 billion (net of forward obligations) by late 2023, a level that raised genuine concerns about external payments capacity and ultimately precipitated the recourse to the IMF.

The fiscal consequences were severe and multifaceted. Government subsidies on electricity, gas, and petroleum products, which had been set at fixed administered prices, exploded as the gap between administered prices and market costs widened. The fuel subsidy alone was estimated to have cost Bangladesh over USD 4 billion equivalent in FY2021-22, a sum that represented an enormous drain on fiscal resources and foreign exchange simultaneously. The government eventually began a series of price increases in 2022 and 2023, but these were implemented gradually and incompletely, prolonging the subsidy cost while also generating inflationary pressure each time prices were adjusted.

The fiscal response to the Russia-Ukraine shock provides an important case study in the tension between protecting households from price increases (which calls for maintaining subsidies) and restoring fiscal and external balance (which calls for removing them). This tension is fundamental and does not have a technically correct answer: it is resolved differently depending on the political values and distributional priorities of the government in power. The IMF's strong preference for rapid subsidy removal, embodied in its program conditionalities, reflects a fiscal stability logic. The counter-argument, that rapid fuel price increases in an economy where the poor spend substantial portions of their income on transport and cooking fuel are deeply regressive, reflects a distributional justice logic. A sophisticated fiscal response would navigate between these logics by combining subsidy reform with targeted compensation for the most

affected low-income households, a strategy that Bangladesh partially pursued but with insufficient coverage and adequacy of the compensation component.

10.5 The July 2024 Mass Uprising: Political Crisis and Fiscal Recalibration

The July-August 2024 mass uprising that brought down Prime Minister Sheikh Hasina's government represents the most dramatic political crisis in Bangladesh's post-independence history since the 1975 assassination of Sheikh Mujibur Rahman. Its fiscal consequences have been significant and are still unfolding as of 2026.

The immediate economic impact of the uprising included a period of factory closures, transport disruption, and business uncertainty that reduced economic activity in July and August 2024. Foreign investors and buyers in the garment sector expressed concerns about political stability. The banking sector, already stressed by high non-performing loans and governance problems, faced additional liquidity pressures. The exchange rate, which had been partially stabilized, came under renewed pressure.

The political transition introduced institutional uncertainty into the fiscal system. The interim government inherited ongoing IMF program commitments, pending decisions on major public investment projects, unresolved subsidy reform, and a revenue shortfall from the deteriorating economy. The challenge of constructing the FY2025-26 budget under these conditions, without a parliamentary mandate, without the normal political consultation processes of elected government, and under IMF program pressure, explains many of the features of that budget: the emphasis on fiscal consolidation over expansion, the sharp ADP cut, and the cautious revenue target.

A new concept relevant to this experience is Transitional Fiscal Legitimacy: the challenges a non-elected interim government faces in establishing the popular legitimacy of its fiscal decisions, given that its budget has not been endorsed through a democratic election and that its political authority is constrained to a transitional period. The interim government's emphasis on the spirit of the July uprising, on anti-corruption recovery, and on transparent fiscal management as the justification for its budget choices reflects an attempt to build legitimacy on normative grounds (good governance, fairness, transparency) in the absence of electoral legitimacy.

10.6 Climate Change as a Long-Run Fiscal Crisis

Bangladesh faces a fiscal crisis in slow motion that is more dangerous in its long-run implications than any of the acute crises discussed above: the progressive worsening of its climate vulnerability as rising sea levels, increased cyclone intensity, changing monsoon patterns, and riverine flooding combine to threaten the livelihoods of tens of millions of people and the economic foundations of the country's most densely populated regions.

The fiscal implications of climate change for Bangladesh are both direct and indirect. Direct fiscal costs include the growing expense of disaster response and reconstruction (Bangladesh typically experiences several major floods and cyclones per year, with total economic damage reaching billions of dollars in severe years), the investment needed in coastal embankments and

river management (the delta's complex hydrology requires constant maintenance and periodic major investment), and the increasing cost of agricultural support as crop patterns become less predictable.

Indirect fiscal costs include the long-run effect on GDP growth as agricultural productivity is disrupted, the migration and urbanization pressures generated as coastal areas become increasingly uninhabitable, the public health costs of heat stress and vector-borne disease spread, and the human capital losses from disrupted schooling and childhood malnutrition in climate-affected areas.

Bangladesh's budget framework has begun to incorporate climate considerations more explicitly. The IMF's Resilience and Sustainability Facility (RSF) arrangement, which runs alongside the ECF/EFF program, provides financing specifically for climate resilience investments, with performance indicators focused on climate fiscal policy reforms including the development of climate budget tagging, the integration of climate risk into debt sustainability analysis, and the strengthening of climate change-related public investment management.

The RSF arrangement has supported the development of a Climate Change Trust Fund within the Bangladesh budget structure, the integration of climate considerations into the ADP project selection process, and the publication of a climate fiscal risk statement alongside the budget. These are important institutional advances. However, the allocation of resources within the budget for climate adaptation investments remains far below what independent technical analyses suggest is needed to adequately protect Bangladesh's population against projected climate change impacts over the next two to three decades.

A new principle relevant here is the Principle of Intergenerational Fiscal Justice: the obligation of current budget-makers to preserve the fiscal conditions, natural resource endowments, and institutional quality needed for future generations to sustain economic and social development. Applied to climate change, this principle implies that the current generation has a fiscal responsibility to invest adequately in climate adaptation and mitigation, not merely to minimize today's budget deficit. The failure to meet this obligation is a form of fiscal irresponsibility that is invisible in standard budget assessments focused only on short-term debt sustainability.

10.7 The LDC Graduation Challenge: Managing the Fiscal Implications

Bangladesh's expected graduation from Least Developed Country (LDC) status in November 2026 represents a fiscal challenge of a distinctly different kind from the acute crises discussed above: it is a scheduled, anticipated, but structurally transformative transition that will alter the terms on which Bangladesh accesses international trade and finance.

LDC graduation will affect Bangladesh's fiscal system through several channels. First, the loss of EU's Everything But Arms (EBA) preferences, which grant Bangladesh duty-free, quota-free access to EU markets for all products including garments, will occur after a transitional grace period (the EU has provided a 3+3 year transition period). The garment sector, which accounts for approximately 80 to 85 percent of Bangladesh's export revenue, will face higher tariffs in EU markets, reducing its competitiveness and potentially affecting employment and investment in

the sector. For the budget, this translates into reduced corporate and VAT revenue from the garment sector and potential pressure for expanded industry support.

Second, the end of LDC-specific development finance terms, including access to the IMF's PRGT facility at near-zero interest rates, will increase the cost of any future IMF borrowing. This is directly relevant given Bangladesh's current ECF arrangement and the possibility of future program need.

Third, the loss of the TRIPS pharmaceutical waiver will increase the cost of medicines imported by Bangladesh's health system and purchased by households, with potentially severe distributional consequences given the high out-of-pocket share of health spending in Bangladesh. One analysis suggests medicine prices could rise by approximately 20 percent following the TRIPS waiver expiry, a particularly damaging outcome given the already catastrophic levels of out-of-pocket health spending (estimated at over 67 percent of total health expenditure, among the highest in the world).

The FY2025-26 budget has begun to address LDC graduation by reducing import duties on selected goods to improve Bangladesh's competitiveness, extending some tax exemptions for export-oriented industries to help them adjust to higher post-graduation tariffs, and initiating a National Tariff Policy reform process. However, the response to the graduation challenge remains fragmented and insufficiently systematic; a comprehensive LDC graduation fiscal strategy, covering revenue, expenditure, and trade policy dimensions in an integrated framework, has not yet been produced.

10.8 Exam Questions: Chapter Ten

Questions for BEcon Examination

What is the Fiscal Crisis Topology and how does it differ from standard crisis classifications? Apply it to classify two different crises that Bangladesh has faced in the past decade and explain the different fiscal responses each classification implies. (15 marks)

Explain the five stages of the Rapid Fiscal Impact Assessment methodology. Apply the first three stages to assess the fiscal impact of Bangladesh's LDC graduation. (20 marks)

What is Fiscal Shock Preparedness Capacity? Identify three specific institutional investments that Bangladesh should make to improve its FSPC before the next major crisis. (12 marks)

Questions for BSS (Economics) Examination

Critically evaluate Bangladesh's fiscal response to COVID-19. What were the main strengths and weaknesses of the response, and what institutional improvements would have produced a better outcome? (15 marks)

What is Transitional Fiscal Legitimacy and why is it relevant to the analysis of Bangladesh's FY2025-26 budget? How has the interim government tried to address the legitimacy challenge in its budget design and communication? (12 marks)

Questions for MSS (Economics) Examination

Using the Principle of Intergenerational Fiscal Justice, critically evaluate the adequacy of Bangladesh's climate adaptation fiscal framework. What is the estimated gap between current climate investment levels and what the principle requires, and what fiscal mechanisms (domestic and international) could close this gap over the next decade? (30 marks)

Design a comprehensive fiscal strategy for managing Bangladesh's LDC graduation. Your strategy should cover the revenue implications (particularly for export-oriented sectors), the development finance implications, the pharmaceutical sector implications, and the trade policy adjustments needed. Specify the timeline for implementation and identify the greatest political economy obstacles to its execution. (35 marks)

CHAPTER ELEVEN: TECHNICAL ASPECTS OF FISCAL ANALYSIS IN BANGLADESH

11.1 Public Sector Accounting Standards and Their Implications

The quality of fiscal analysis depends fundamentally on the quality of the underlying accounting data. Bangladesh's public sector accounting system operates on a modified cash basis, meaning that revenues are recorded when received and expenditures when paid, rather than when they are earned or incurred (as under accrual accounting). This approach is simpler to implement in an environment of limited administrative capacity but has significant analytical limitations.

The most important limitation of cash-basis accounting for fiscal analysis is that it fails to capture the full fiscal implications of government decisions made in one period that produce cash flows in future periods. A government guarantee of a state-owned enterprise's commercial borrowing has no immediate cash effect, but it creates a contingent liability that may require cash payment in future years if the SOE defaults. A government pension commitment has no immediate cash effect, but it creates a future liability that must eventually be paid. Under cash accounting, both of these obligations are invisible in the budget documents and financial statements.

This invisibility is not merely an accounting technicality. It represents a structural bias toward understatement of the true fiscal cost of government decisions and a potential mechanism for moving fiscal obligations off the immediate budget onto future periods, where they become binding commitments for future governments. Bangladesh's significant stock of implicit and contingent liabilities, including the pension system for public sector employees, the potential fiscal cost of state-owned bank recapitalization, government guarantees of SOE debt, and the

long-run fiscal implications of climate commitments, is not adequately captured in its cash-basis accounts.

The international move toward accrual-basis public sector accounting, embodied in the International Public Sector Accounting Standards (IPSAS) framework, is gradually influencing Bangladesh's accounting reform agenda, with technical assistance from the IMF and donor partners. However, the transition to full accrual accounting requires not only technical reforms but substantial improvements in asset valuation methodology, pension liability estimation capacity, and the actuarial expertise needed to estimate long-run financial commitments.

11.2 Treasury Single Account and Cash Management

Bangladesh's Treasury Single Account (TSA), maintained by the Finance Division at Bangladesh Bank, is the central repository of government funds. All revenues received by the government flow into the TSA, and all expenditures are authorized through it. The TSA system, enhanced by the iBAS++ platform, provides the government with real-time visibility of its overall cash position, enabling better cash flow management and reducing the need for expensive emergency borrowing.

The TSA system in Bangladesh has developed significantly from the fragmented, ministry-level account system of the pre-reform era. However, several important gaps remain. Public bodies outside the core civil service (state-owned enterprises, autonomous regulatory bodies, public universities, and research institutions) maintain accounts outside the TSA, creating a significant volume of public money that is not subject to centralized cash management. The local government system, which receives substantial transfers from the national budget, maintains its own accounts and financial systems that are largely disconnected from the national treasury management framework.

Advanced treasury management, as practiced in more developed fiscal systems, goes beyond the basic TSA to include sophisticated cash flow forecasting (predicting the timing of revenue inflows and expenditure outflows to minimize idle balances and costly overdrafts), active liability management (optimizing the composition of government debt by maturity and instrument type to minimize cost), and investment of temporary surplus balances to maximize return while maintaining liquidity. Bangladesh's Treasury and Debt Management Wing is developing toward these more sophisticated capabilities, with particular focus on improving debt management given the growing complexity of the government's liability portfolio.

11.3 Fiscal Risk Assessment and Disclosure

Fiscal risk assessment is the systematic identification and quantification of the factors that could cause actual fiscal outcomes to differ from those projected in the budget. Standard categories of fiscal risk include macroeconomic risk (the economy grows slower or faster than projected), revenue risk (compliance or economic composition differs from projections), expenditure risk (emergency spending needs arise, project costs exceed estimates), and contingent liability risk (government guarantees are called, SOEs require recapitalization, pension costs exceed projections).

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International best practice, as embodied in the IMF's Fiscal Transparency Code, calls for governments to produce a comprehensive Fiscal Risk Statement alongside the annual budget, quantifying the main sources of fiscal risk and their potential budgetary impact. Bangladesh does not yet produce a comprehensive fiscal risk statement of the standard envisaged by the IMF's code, though the Finance Division includes some fiscal risk discussion in its budget documents and the IMF program has included fiscal risk disclosure as a structural benchmark.

The most significant and least transparently disclosed fiscal risks in Bangladesh's current position include: the contingent liabilities arising from the government's implicit guarantees of state-owned commercial bank obligations (the banking sector crisis of 2022-2025 has created potentially large recapitalization needs that are not reflected in the published budget); the fiscal cost of LDC graduation for export-dependent sectors; and the long-run pension liability of the expanding civil service.

A new doctrine relevant here is the Doctrine of Proactive Fiscal Risk Management: the principle that fiscal risk should be actively managed through prevention (policies that reduce the probability of adverse outcomes), mitigation (insurance, reserves, and contingency funds that reduce the impact when adverse outcomes occur), and transparency (comprehensive disclosure of risks to enable parliamentary and public scrutiny). Bangladesh's fiscal risk management is currently reactive rather than proactive; it responds to crises when they materialize rather than systematically managing the probability of their occurrence.

11.4 Public Investment Management: From Project Appraisal to Implementation

Public investment management covers the full life cycle of public investment decisions, from the initial identification of investment needs through project preparation, appraisal, selection, budgeting, implementation monitoring, and post-completion evaluation. The quality of this management system is a critical determinant of the economic return to public investment and the efficiency with which the ADP budget is translated into productive assets.

Bangladesh's public investment management system has been assessed repeatedly by the World Bank, ADB, and IMF, with consistent findings of significant weakness at several stages of the life cycle. Project preparation is often rushed, with inadequate technical, economic, and environmental feasibility assessment. Development Project Proforma (DPP) submissions are frequently prepared to satisfy procedural requirements rather than to provide a genuine basis for investment decision-making. Cost estimates are often unreliable, with significant upward revisions after project approval. Implementation is chronically delayed, with the reasons including procurement bottlenecks, land acquisition difficulties, contractor performance problems, and coordination failures among multiple implementing agencies.

The economic consequence of these management failures is a systematic reduction in the return to public investment below its potential. A road project that takes three years longer than planned to complete generates economic returns three years later than projected and at a higher cost than estimated. A school building that is constructed but left without teachers and books for two years after completion produces no educational output during that period. These inefficiencies,

aggregated across hundreds of ADP projects, represent an enormous fiscal cost that does not appear in the budget arithmetic but is very real in its welfare consequences.

The most recent IMF Article IV consultation (completed January 2026) noted that improving public investment management was critical for Bangladesh to close the gap between its ambitious infrastructure investment program and its actual capacity to execute it efficiently. This assessment is consistent with the World Bank's Public Investment Management Assessment (PIMA) framework findings for Bangladesh, which identified project appraisal quality, project selection criteria, and implementation monitoring as the three areas most urgently requiring reform.

11.5 Fiscal Decentralization: The Local Government Finance Challenge

Bangladesh's highly centralized fiscal system stands in contrast with the formal existence of a three-tier local government structure (City Corporations, Municipalities/Pourashavas, and Union Parishads). Local governments in Bangladesh have extremely limited own-source revenue capacity: property taxes, business licenses, and local fees generate modest revenue that covers only a fraction of local service delivery needs. The overwhelming majority of local government resources come from central transfers, creating a high degree of fiscal dependence on the central government and limited local fiscal autonomy.

The formula-based transfer system, through which the Annual Block Grant and other central transfers are distributed to local governments, has been the subject of repeated reform discussions. Critics note that the current distribution formula does not adequately reward local governments for their own revenue mobilization effort, does not differentiate between the very different service delivery costs of urban and rural local governments, and does not systematically direct resources toward the most fiscally needy localities.

A deeper challenge is the mis-match between the formal assignment of service delivery responsibilities to local governments and the fiscal resources available to them. In Bangladesh's intergovernmental system, local governments are formally responsible for local roads, markets, water supply, sanitation, and some aspects of social assistance, but the resources transferred to them are far below what would be needed to perform these functions to minimum quality standards. This structural under-resourcing of local governments means that the fiscal decentralization agenda remains largely theoretical despite decades of reform discussion.

11.6 Off-Budget Fiscal Activities and Fiscal Transparency

A persistent challenge in assessing the full fiscal position of Bangladesh is the existence of significant fiscal activities that occur outside the formal budget framework. These off-budget activities take several forms.

State-owned enterprise (SOE) finances represent the largest off-budget fiscal domain. Bangladesh has approximately 50 significant state-owned enterprises, ranging from Bangladesh Petroleum Corporation and Bangladesh Power Development Board in the energy sector to Biman Bangladesh Airlines, Bangladesh Railways, and the state-owned commercial banks. These

entities receive substantial transfers and subsidies from the budget, borrow with implicit or explicit government guarantees, and carry liabilities that would ultimately fall on the government in the event of their financial distress. The true fiscal cost of the SOE sector is not captured in the published budget but is reflected in various off-budget accounts and contingent obligations.

Extra-budgetary funds, managed outside the normal budget framework, represent another dimension of off-budget fiscal activity. These include social protection funds, development funds, and sector-specific financing mechanisms that accumulate resources and make expenditure decisions without being fully integrated into the budget preparation and reporting process.

The IMF's Fiscal Transparency Code calls for comprehensive coverage of all entities that exercise fiscal significance, whether or not they are formally included in the budget document. Bangladesh's fiscal reporting still falls significantly short of this standard, and improving the coverage and quality of fiscal reporting to capture off-budget activities is a major institutional reform priority identified in the current IMF program.

11.7 Exam Questions: Chapter Eleven

Questions for BEcon Examination

What are the main limitations of cash-basis accounting for fiscal analysis? How would the introduction of accrual-basis accounting improve the quality of Bangladesh's fiscal information? (12 marks)

Describe the Treasury Single Account system in Bangladesh. What are the main gaps in TSA coverage and why do they matter for fiscal management? (10 marks)

What is a Fiscal Risk Statement and what should it contain? Identify the three most significant fiscal risks facing Bangladesh in 2025-2026 that should be disclosed in such a statement. (12 marks)

Questions for BSS (Economics) Examination

Explain the Doctrine of Proactive Fiscal Risk Management. Provide one example each of prevention, mitigation, and transparency measures that Bangladesh could implement to improve its fiscal risk management. (15 marks)

Critically assess Bangladesh's public investment management system at the project appraisal stage. What are the most important weaknesses and what reforms would address them? (12 marks)

Questions for MSS (Economics) Examination

Using the World Bank's Public Investment Management Assessment framework, conduct a systematic evaluation of Bangladesh's public investment management system. Identify the three

weakest links in the investment management cycle and design specific reforms to strengthen each. (30 marks)

Design a fiscal decentralization reform package for Bangladesh that would meaningfully strengthen local government fiscal capacity over a ten-year period. Your design should specify changes to the transfer formula, own-revenue assignment, local borrowing framework, and accountability systems, with particular attention to the political economy obstacles that have prevented similar reforms in the past. (30 marks)

CHAPTER TWELVE: THE FUTURE BUDGET FY2026-27 AND WHY THE CURRENT BUDGET IS REASONABLE

12.1 A New Philosophy: The Philosophy of Achievable Reasonableness

Budget quality is not best measured by ambition. It is measured by the relationship between what is promised and what can be delivered, between the vision it articulates and the institutional capacity available to realize it, and between the fiscal constraints it faces and the creative ingenuity with which it navigates them.

This textbook proposes a new philosophical standard for evaluating national budgets in developing economies: the Philosophy of Achievable Reasonableness. A budget is reasonable to the extent that its revenue targets reflect what the tax system, given its current architecture and administrative capacity, can realistically collect; its expenditure priorities reflect a clear-eyed assessment of developmental need, implementation capacity, and distributional justice; its macroeconomic assumptions fall within the range of credible forecasts; its financing plan is genuinely implementable; and its overall fiscal stance is consistent with long-run debt sustainability.

A budget may be achievably reasonable even if it is not optimal: the FY2025-26 budget cuts health and education allocations below recommended levels, reflects inadequate social protection for the inflation-affected poor, and does not adequately address the structural weaknesses in the revenue system. By the standard of the Multi-Dimensional Budget Assessment Framework, it scores poorly on allocative quality and distributional quality. But by the standard of Achievable Reasonableness, it represents a significant improvement over recent predecessors, because it acknowledges the constraints facing Bangladesh's fiscal system rather than pretending they do not exist, and sets targets that have a genuine possibility of being achieved.

12.2 Why the FY2025-26 Budget Is Reasonable

The case for the reasonableness of the FY2025-26 budget rests on several specific arguments, each of which can be evaluated against data.

First, the revenue target is more credible than recent precedents. The NBR revenue target of Tk 4,99,000 crore represents a 7.6 percent increase from the revised FY2025 target. Given NBR's

historical collection performance and the ongoing administrative reforms (e-filing, NBR restructuring, reduced exemptions), this target is challenging but within the range of achievability. It stands in favorable contrast to previous years' targets that set ambitions well above 15 percent growth from already optimistic bases.

Second, the deficit reduction is structurally appropriate. The reduction of the fiscal deficit from 4.6 percent to 3.6 percent of GDP is a genuine and meaningful fiscal consolidation. At a time when Bangladesh's debt service costs are rising rapidly, when the IMF program requires fiscal tightening, and when domestic borrowing has been crowding out private credit, a reduction in the fiscal deficit addresses a genuine macroeconomic problem rather than merely serving ideological purposes.

Third, the ADP cut is pragmatically rational. The reduction of the ADP from Tk 2,65,000 crore (original FY2025) to Tk 2,30,000 crore better matches the demonstrated absorptive capacity of Bangladesh's project implementation system. Bangladesh has consistently failed to implement more than 75-85 percent of its ADP in recent years; a smaller, more focused ADP that can be fully implemented produces more economic value than a larger ADP with chronic under-implementation.

Fourth, the tax reform agenda is directionally correct. The expansion of the standard 15 percent VAT rate, the reduction of exemptions, the separation of tax policy from tax administration, and the development of a Medium and Long-Term Revenue Strategy all move in the right direction for improving Bangladesh's chronically weak revenue performance. These measures will not produce their full impact in a single year, but they establish the institutional foundations for sustained revenue improvement.

Fifth, the prioritization of inflation control is appropriate given current conditions. With inflation running at 8 to 9 percent and IMF projections suggesting continued elevation, the tight fiscal stance of the FY2026 budget contributes to disinflationary macroeconomic conditions. High inflation is regressive: it hits the poor hardest because a larger share of their income goes to food and basic necessities, which experience the sharpest price increases. A budget that contributes to reducing inflation therefore has a progressive distributional effect that partially offsets its other distributional shortcomings.

12.3 Where the FY2025-26 Budget Falls Short

Acknowledging that the FY2025-26 budget is reasonable in the context of severe constraints does not mean it is adequate. Several significant shortcomings deserve specific identification.

The health allocation is dangerously inadequate. An increase of just 1 percent in the health budget, to Tk 41,908 crore, against a background of 8 to 9 percent inflation means the real value of health spending has declined. This occurs when the healthcare system is already severely underfunded: Bangladesh spends approximately 0.7 percent of GDP on public health, compared to 1.8 percent across South Asia and the WHO-recommended minimum of 5 percent. The out-of-pocket share of health spending at over 67 percent represents one of the highest levels of financial catastrophe risk from illness globally. The failure to protect health spending during a

period of fiscal consolidation reflects a political economy in which the health sector lacks the powerful constituency that can resist budget cuts.

The education allocation, at 1.53 percent of GDP, falls far below the UNESCO recommendation of 4 to 6 percent and the government's own stated target of 3.5 percent. Bangladesh's learning crisis, documented in successive national and international learning assessments, shows that a large proportion of children complete primary school unable to read at grade level, meaning that more spending on enrollment without improvement in learning quality is insufficient. The budget's modest nominal increases in education spending, which represent a real decline when adjusted for inflation, are unlikely to reverse this trend.

The social protection provisions remain insufficient for the scale of vulnerability. While the government maintains existing programs (Old Age Allowance, Widow's Allowance, disability benefits, and cash transfers to rural poor), the benefit values remain low relative to the poverty line and the coverage gaps (the number of eligible persons who do not receive any benefit) remain large. The interim government's emphasis on the July uprising's demands for a more equitable economy has not been translated into a meaningfully more redistributive social protection framework.

12.4 Projecting the FY2026-27 Budget: Key Parameters and Structural Shifts

Looking forward to the FY2026-27 budget, which will be the first budget under whatever new political arrangement emerges from Bangladesh's anticipated elections, several structural factors will shape the fiscal environment.

The IMF program, if continued through its full term, will impose continuing conditionality around revenue mobilization, banking sector reform, and fiscal transparency. The sixth and seventh reviews of the program, expected in 2026, will assess performance against these conditions and determine whether further tranches of funding are released. The revenue mobilization conditions, which require a sustained increase in the tax-to-GDP ratio, will push the FY2026-27 budget toward continued expansion of the NBR revenue target.

LDC graduation effects will begin to materialize more concretely as the November 2026 graduation date approaches. Trade partners will be finalizing their post-graduation trade policy frameworks, and Bangladeshi exporters will need greater clarity on the tariff regime they will face. The FY2026-27 budget will likely need to address the transitional support needs of export-oriented industries facing higher external tariffs, potentially through targeted fiscal incentives and workforce skill-building investments.

The banking sector, if the recapitalization and governance reform agenda moves forward in 2025-2026, may present both a fiscal cost (in the form of government capital injection into state-owned banks) and a longer-term fiscal benefit (in the form of a more functional financial sector that supports private investment and growth). The FY2026-27 budget will need to budget explicitly for banking sector recapitalization rather than treating it as an off-budget contingency.

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The political context of the FY2026-27 budget will be shaped by whether elections have been held and by the priorities of whichever political formation leads the post-election government. If Sheikh Hasina's Awami League returns to power, the budget framework might emphasize continuity with the earlier development agenda, including potential expansion of the ADP. If a new political coalition emerges, particularly one carrying the reform mandate of the July uprising, the budget might place greater emphasis on anti-corruption measures, social protection expansion, and governance reform.

12.5 A Draft Framework for FY2026-27

Based on the analysis in this and preceding chapters, the following framework represents a provisional projection of key FY2026-27 budget parameters, acknowledging the significant uncertainty inherent in any such projection.

The total budget size should range from Tk 8,50,000 crore to Tk 8,80,000 crore, representing a 7 to 11 percent increase from the FY2025-26 budget. This range reflects projected nominal GDP growth of approximately 9 to 10 percent (combining real growth of approximately 5 to 6 percent and inflation declining toward 6 to 7 percent) and the continued priority of fiscal consolidation, which means the budget should not expand as fast as nominal GDP.

The NBR revenue target should be set in the range of Tk 5,50,000 crore to Tk 5,65,000 crore, reflecting continued progress on tax administration reform and the full-year impact of VAT base broadening measures introduced in FY2026. This implies a tax-to-GDP ratio of approximately 8.5 to 9 percent, still below the IMF program's medium-term target but representing continued improvement.

The fiscal deficit should be further reduced to approximately 3.0 to 3.4 percent of GDP, consistent with the IMF program's medium-term fiscal framework and the trajectory of debt stabilization needed to prevent the debt-to-GDP ratio from rising above 40 percent.

The ADP should be modestly increased to approximately Tk 2,50,000 crore to Tk 2,60,000 crore, calibrated to the demonstrated implementation capacity improvements that should result from the ongoing public investment management reforms. A somewhat expanded ADP is appropriate in FY2026-27 if implementation performance in FY2025-26 shows genuine improvement, as the contractionary ADP of FY2025-26 may have been overly cautious.

Health and education should receive priority in expenditure allocation in FY2026-27. The health budget should increase by at least 15 to 20 percent in nominal terms (moving toward 0.85 to 0.9 percent of GDP), with specific emphasis on increasing the operational budget for district hospitals and primary health care centers that currently provide inadequate care due to staffing and supply shortfalls. The education budget should increase to at least 1.8 to 2.0 percent of GDP, with particular emphasis on the teaching quality improvement agenda (teacher training, learning assessment, curriculum reform) that determines whether additional investment produces actual learning improvements.

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12.6 What Makes a Future Budget Reasonable: A Normative Framework

Building on the Philosophy of Achievable Reasonableness introduced earlier in this chapter, this section proposes a normative framework for evaluating future Bangladesh budgets that goes beyond the conventional fiscal sustainability metrics to encompass the full scope of developmental and distributional obligations.

A future Bangladesh budget that is worthy of the term "reasonable" must satisfy seven normative criteria, each grounded in the empirical and theoretical analysis of this textbook.

Criterion One: Revenue Credibility. Revenue targets are set at the median of a credible probability distribution based on historical collection efficiency, economic forecasts, and realistic administrative improvement. The targets should be independently verifiable.

Criterion Two: Implementation Feasibility. The ADP size is calibrated to actual absorptive capacity, measured by multi-year implementation data, rather than to the maximum conceivable financing available.

Criterion Three: Debt Sustainability. The fiscal deficit is consistent with a stable or declining path for the debt-to-GDP ratio over the medium term, under realistic macroeconomic scenarios including moderate adverse shocks.

Criterion Four: Distributional Floor. The budget maintains minimum per-capita allocations in health, education, and social protection that prevent the least-advantaged members of society from bearing a disproportionate share of any fiscal adjustment, even in periods of consolidation.

Criterion Five: Institutional Investment. The budget includes sufficient resources for the institutional reforms (PFM improvement, tax administration modernization, public investment management strengthening, local government capacity development) that determine the quality of future fiscal management.

Criterion Six: Intergenerational Equity. The budget adequately addresses the long-run fiscal obligations created by climate change, pension commitments, and infrastructure maintenance needs, rather than treating them as future problems to be inherited by future governments.

Criterion Seven: Democratic Transparency. The budget is accompanied by comprehensive fiscal risk disclosures, a gender budget report of genuine analytical quality, a climate budget statement, and accessible plain-language summaries that enable the full range of citizens, not only specialists, to understand and evaluate the government's fiscal choices.

By these seven criteria, Bangladesh's FY2025-26 budget scores reasonably on Criteria One and Three, partially on Two, poorly on Four, very poorly on Five and Six, and only modestly on Seven. The aspiration for FY2026-27 and beyond should be to make measurable progress across all seven criteria, particularly the four on which FY2025-26 performs most poorly.

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12.7 Exam Questions: Chapter Twelve

Questions for BEcon Examination

Define the Philosophy of Achievable Reasonableness. Using this standard, evaluate whether Bangladesh's FY2025-26 budget is a "reasonable" budget. Support your evaluation with specific data. (15 marks)

On what grounds is the FY2025-26 ADP reduction from Tk 2,65,000 crore to Tk 2,30,000 crore justified? What evidence would you need to determine whether the smaller ADP produces better developmental outcomes? (12 marks)

List and briefly define the seven normative criteria for a reasonable budget. Rank Bangladesh's FY2025-26 budget against each criterion. (15 marks)

Questions for BSS (Economics) Examination

What are the three main shortcomings of the FY2025-26 budget identified in this chapter? For each shortcoming, propose a specific budgetary measure that would address it in FY2026-27. (15 marks)

What structural factors will shape the macroeconomic and fiscal environment for the FY2026-27 budget? How should these factors influence the budget's design? (12 marks)

Questions for MSS (Economics) Examination

Critically analyze the reasonableness of Bangladesh's FY2025-26 budget using the Philosophy of Achievable Reasonableness. Your analysis should address all five arguments for the budget's reasonableness presented in Section 12.2 and all three shortcomings identified in Section 12.3, drawing on quantitative data from the budget and from independent assessments by the IMF, World Bank, CPD, and SANEM. (30 marks)

Construct a detailed fiscal framework for Bangladesh's FY2026-27 budget. Your framework should specify: the macroeconomic assumptions; the revenue target and its basis; the deficit ceiling and its justification; the ADP size and sectoral priorities; the key tax policy measures; the financing plan; and the three most important institutional reforms that the budget should initiate. Your framework should be consistent with the seven normative criteria for a reasonable budget and should satisfy the conditions of the ongoing IMF program. (40 marks)

PART TWO: CONCLUDING REFLECTIONS

The chapters of Part Two have moved through a demanding terrain. From the methodology of budget preparation (Chapter Four) through economic modeling (Chapter Five), assessment techniques (Chapter Six), research methods (Chapter Seven), the drafting process (Chapter

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Eight), comparative lessons (Chapter Nine), crisis assessment (Chapter Ten), technical architecture (Chapter Eleven), and future projections (Chapter Twelve), the reader has been asked to master not just a body of knowledge but a set of analytical skills and critical dispositions.

Several threads run through all these chapters and bear reiteration in closing.

The first is the theme of institutional capacity as the binding constraint on fiscal quality. Bangladesh's revenue shortfalls, its ADP under-implementation, its weak program evaluation, its incomplete fiscal risk disclosure, and its fragmented local government finances all ultimately reflect institutional capacity limitations, not merely technical design flaws. Reforming the fiscal system requires building the institutions: the trained professionals, the organizational cultures, the accountability mechanisms, and the information systems that are needed to make the technical frameworks operate as intended.

The second is the theme of political economy as the explanation for persistent fiscal failures. The gap between Bangladesh's fiscal reform agenda and its fiscal performance is not primarily a problem of knowledge. Policy-makers in Bangladesh's Finance Division, NBR, and Planning Commission are generally aware of what reforms are needed. The gap is a political economy problem: the reforms that would most improve fiscal quality tend to challenge the interests of organized groups, whether tax-avoiding businesses, politically connected contractors, subsidy-dependent industries, or civil servants resistant to performance accountability. Overcoming this resistance requires political will of a kind that elected governments dependent on these very constituencies find difficult to muster consistently.

The third thread is the theme of the budget as a moral document. Behind every number in every budget table is a choice about whose needs matter, whose risks are borne by the public and whose are borne privately, and what version of the good life the state is committed to enabling for its citizens. The analysis in Part Two has shown repeatedly that Bangladesh's budget, for all its technical imperfections, embodies genuine commitments to poverty reduction, human development, and public investment that have produced real improvements in the lives of millions of people over five decades. It has also shown that these commitments have been systematically under-resourced, unevenly distributed, and imperfectly implemented. The challenge of fiscal reform is ultimately the challenge of making the budget more fully honor the moral commitments it nominally contains.

PART THREE: SECTORAL FISCAL ANALYSIS: EDUCATION, HEALTH, SOCIAL PROTECTION, AGRICULTURE, ENERGY, INFRASTRUCTURE, BANKING, AND THE DIGITAL ECONOMY

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Preface to Part Three

If Part Two was the anatomy of budget-making, Part Three is its physiology: the study of how the fiscal organism actually functions in the specific organs and systems through which it delivers or fails to deliver its promised services. A budget is not a single thing. It is a collection of sector-level decisions, each with its own political economy, its own institutional ecology, its own beneficiary groups, its own technical challenges, and its own trajectory of success and failure.

Part Three investigates eight sectors in depth: education, health, social protection, agriculture, energy, infrastructure, banking, and the digital economy. These are not the only sectors in Bangladesh's budget, but they are the ones that collectively define Bangladesh's developmental trajectory, that absorb the largest proportions of public resources, and that present the most consequential choices for fiscal policy. Each chapter in Part Three moves through a common analytical architecture: the current allocation pattern and its historical context; the principal theoretical frameworks for thinking about the sector's fiscal economics; the specific institutional and political economy dynamics that shape sector outcomes; the evidence on what has worked and what has not; the critical controversies within the sector; and the reform agenda for the near and medium term.

Part Three also introduces a new cross-cutting concept that runs through all eight sector chapters: the concept of Sectoral Fiscal Metabolism, defined here as the characteristic set of processes by which a sector converts budget allocations into real outcomes for beneficiaries, including the institutional pathways, the behavioral dynamics, the leakage and inefficiency mechanisms, and the feedback loops that ultimately determine how much welfare a taka of public spending in each sector actually produces. Understanding sectoral fiscal metabolism requires going beyond the budget documents to the operational realities of service delivery, the power dynamics of institutional politics, and the lived experience of those for whom the services are ultimately intended.

The exam questions in Part Three reflect a higher degree of analytical integration than in Parts One and Two, requiring students to synthesize concepts from multiple chapters and apply them to sector-specific problems. MSS-level questions in this part are designed to challenge doctoral-track students to produce original analysis, not merely to reproduce textbook content.

CHAPTER THIRTEEN: THE EDUCATION BUDGET: LEARNING CRISIS, STRUCTURAL UNDERFUNDING, AND THE PATH FORWARD

13.1 A New Definition: Productive Educational Expenditure

Public expenditure on education, in its most widely used definition, is measured as the proportion of GDP or the government budget directed to education-related ministries and programs. This quantitative metric, while useful for cross-country comparison and temporal tracking, conceals more than it reveals. A country can spend 4 percent of GDP on education and

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produce abysmal learning outcomes if that spending is absorbed by inflated teacher payrolls, unnecessary administrative layers, and building construction that stands empty due to teacher absence. Conversely, a country spending 1.5 percent of GDP on education can produce reasonable learning outcomes if the spending is efficiently targeted at the inputs that actually matter for learning.

This textbook proposes a superior concept: Productive Educational Expenditure (PEE), defined as the share of total education budget spending that demonstrably reaches and improves the learning environment directly experienced by students, as distinct from spending absorbed by administrative overhead, politically motivated teacher posting patterns, building construction without accompanying learning materials, and programs that generate outputs (school completion rates, exam passes) without generating genuine learning.

Measuring PEE requires data on the functional use of education spending, not just its institutional destination. It requires knowing not only how much money goes to the Ministry of Primary and Mass Education but how much of that money actually reaches classroom teaching materials, teacher professional development, student assessment systems, and the specific remedial interventions that close learning gaps for children falling behind. In Bangladesh, such data is partial and imperfect, which is itself an important finding: the absence of systems to track the learning impact of education spending is both a symptom and a cause of education's chronic underperformance.

13.2 The Scale and Structure of Bangladesh's Education Budget

For FY2025-26, Bangladesh allocated Tk 95,644 crore to the education sector, distributed across three institutional channels: the Ministry of Primary and Mass Education (Tk 35,403 crore), the Secondary and Higher Education Division (Tk 47,563 crore), and the Technical and Madrasa Education Division (Tk 12,678 crore). This aggregate represents 12.1 percent of the total budget and 1.72 percent of GDP, a figure that places Bangladesh among the lowest education spenders in the world relative to the size of its economy.

The comparison with international benchmarks is stark. UNESCO recommends that countries allocate 4 to 6 percent of GDP, or 15 to 20 percent of the national budget, to education. The South Asian regional average is approximately 3.5 percent of GDP. The ten countries globally that allocate the smallest proportion of their economies to education include Bangladesh, a ranking that carries profound developmental implications. According to World Bank analysis, Bangladesh's position among the world's lowest education spenders relative to GDP reflects not a deliberate strategic choice but a structural failure of the political system to prioritize an investment whose returns are long-term, diffuse, and not directly visible at the point of the spending decision.

The composition of education spending is as revealing as its aggregate level. The dominant share of the education budget goes to teacher salaries and administrative costs under the revenue budget, with the ADP component funding school construction, equipment, and development programs. The primary and mass education budget for FY2025-26, at Tk 35,403 crore, actually represents a decrease from the FY2024-25 allocation of Tk 38,819 crore, a nominal cut in the

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sector serving the youngest and most developmentally critical learners. This cut, which occurred in the context of overall budget consolidation, signals a political economy in which primary education, despite its centrality to long-run human capital formation, lacks the powerful institutional constituency needed to protect its budget during periods of fiscal stress.

13.3 The Learning Crisis: The Elephant in the Education Budget

Bangladesh's education system presents a paradox that is simultaneously its greatest achievement and its most serious failure. The country has dramatically expanded access to schooling over the past three decades: net enrollment rates in primary education now exceed 97 percent, girls and boys attend school at essentially equal rates at the primary level, and the gender gap in secondary enrollment has been reversed, with girls outnumbering boys. These are genuine achievements, driven by a combination of the Female Secondary School Stipend Program, the school meal program, school construction, teacher recruitment, and broader social changes including women's labor force participation in the garment sector that raised the opportunity cost of early marriage for girls.

However, the learning outcomes achieved within this expanded system are deeply inadequate. Multiple rounds of the National Student Learning Assessment (NSLA), conducted periodically by the Directorate of Primary Education, have found that a large proportion of Grade 5 students do not achieve minimum competency in Bangla and mathematics. International comparative assessments, while Bangladesh has limited participation, confirm that learning levels among Bangladeshi students are below what would be expected given the number of years of schooling they receive. This phenomenon, well-documented in development economics literature, is called the learning crisis: the decoupling of enrollment from actual learning, so that children accumulate years of schooling without accumulating the knowledge and skills that schooling is meant to provide.

The roots of the learning crisis in Bangladesh are multiple and well-documented. Teacher quality is the single most important determinant of learning outcomes in any educational system, and Bangladesh's teacher workforce, while vast (approximately 500,000 primary school teachers), is characterized by inadequate pre-service training, highly variable quality, high absenteeism (estimated at 10 to 15 percent in some surveys), and a posting system heavily influenced by political connections rather than pedagogical suitability. The curriculum and assessment system has historically emphasized rote memorization and examination performance over deeper learning and problem-solving skills, though reforms initiated from 2022 onward are attempting to shift toward competency-based education. Learning materials are frequently unavailable or out-of-date, and classroom libraries, science laboratories, and digital learning tools remain exceptional rather than standard features of Bangladeshi public schools.

A new doctrine directly relevant to the education budget is the Doctrine of Input-Outcome Inversion: the systematic tendency of public education budgets to prioritize visible, quantifiable inputs (buildings constructed, textbooks printed, teachers appointed) over the less visible but more consequential outcomes (what children actually learn, what skills they develop, what economic and social capabilities they acquire). Input-Outcome Inversion is not merely a technical measurement problem; it is a political economy problem. Inputs generate contracts,

payrolls, and visible physical constructions that are politically valuable. Outcomes are distributed across millions of households and are measurable only through assessment systems that require sustained institutional investment to maintain.

13.4 Teacher Quality and the Political Economy of Teacher Posting

No factor in the education system has a greater impact on learning outcomes than teacher quality, and no aspect of Bangladesh's education system is more thoroughly shaped by political economy dynamics than teacher posting and management. Understanding the political economy of teachers is essential for understanding why Bangladesh's education budget, whatever its level, consistently underperforms its potential.

Bangladesh's primary school teaching workforce is formally managed by the Directorate of Primary Education (DPE) through a centralized appointment and posting system. In practice, this system is heavily penetrated by political influence: Member of Parliament offices receive requests for teacher postings, and their ability to influence postings in their constituencies is a significant political resource. The result is that teachers are often posted to locations where they have political connections rather than where they are educationally most needed, and that teacher transfers can be requested through political channels, creating instability in school staffing in areas where incumbent politicians are challenged by rivals.

The MPO (Monthly Pay Order) system, through which non-government schools and colleges receive government salary support for their teaching staff, is similarly penetrated by political dynamics. MPO inclusion has historically required political patronage, with thousands of teacher positions at non-government institutions enrolled in the MPO system through processes that were not always transparent or merit-based. The resulting wage bill is enormous: non-government educational institutions that receive MPO support collectively absorb a substantial portion of the education budget, with the government effectively running a parallel private education system through salary subsidies without the accountability mechanisms that would apply to fully public institutions.

13.5 Higher Education: The Equity Problem and the Research Deficit

Bangladesh's public university system is simultaneously a source of national pride and a significant fiscal equity problem. Public universities provide heavily subsidized higher education to approximately 400,000 students at any given time, charging fees that are a fraction of the cost of provision. This subsidy is financed from the national budget and flows disproportionately to students from relatively advantaged socioeconomic backgrounds who have the educational preparation and social networks needed to succeed in competitive university entrance processes.

The equity problem of public higher education subsidy has been extensively documented in development economics. A taka of public university subsidy benefits a student who is, on average, significantly better-off than a taka of primary school stipend benefits a student who is, on average, significantly more disadvantaged. The progressive case for public higher education financing rests on the human capital externality argument: higher education produces knowledge spillovers that benefit the entire economy, justifying public subsidy even for individual students

who capture most of the private return. This argument has merit but does not justify the current extent of cross-subsidy, which would be better redesigned to include income-related loan repayment schemes for graduates who capture large private returns while preserving grant support for those from genuinely disadvantaged backgrounds.

Bangladesh's public universities also suffer from a severe research deficit. Public investment in research and development through universities is negligible by any international standard: total R&D expenditure as a proportion of GDP is below 0.5 percent, compared to 1 to 2 percent in comparable Asian economies and 2 to 4 percent in more advanced economies. The FY2025-26 budget contains no significant new investment in university research infrastructure or competitive research grant systems. The consequence is a higher education system that produces graduates for the labor market but contributes minimally to the knowledge base that drives economic diversification and productivity growth.

13.6 Technical and Vocational Education: The Alignment Problem

Bangladesh faces a skills mismatch of growing severity: employers report significant difficulty finding workers with the technical skills needed for manufacturing upgrading, digital economy participation, and services sector expansion, while large numbers of educated young people struggle to find formal employment. This mismatch reflects a structural failure in the technical and vocational education and training (TVET) system, which produces credentials that do not align with actual labor market demand and that suffer from a quality and social prestige deficit that limits enrollment among the most academically capable students.

The FY2025-26 budget's allocation of Tk 12,678 crore to the Technical and Madrasa Education Division represents a modest increase from the previous year, but the allocation to technical education within this division remains small relative to the scale of the skills challenge. The government's stated priorities for technical and vocational education, reflected in new curriculum development, the outcome-based education model for private universities, and the expansion of LEDP (Learning and Earning Development Project) to 60,000 trainees, are directionally appropriate. However, the fiscal resources allocated to TVET remain far below what a serious skills development strategy would require.

A new principle applicable here is the Principle of Labor Market Anchored Education Finance: the idea that a productive share of education spending should be allocated on the basis of evidence-based assessment of labor market needs, directing additional resources toward educational programs that produce skills in genuine demand and withholding or reducing resources from programs that produce graduates into saturated markets without adequate employment prospects. This principle requires a functioning labor market information system (which Bangladesh is building but has not yet fully developed) and a willingness to make politically difficult decisions about the relative value of different educational credentials.

13.7 The Madrasa System: Inclusion, Quality, and Fiscal Challenge

Bangladesh's madrasa education system, which provides religious education to approximately 3 to 4 million students through a network of Qaumi and Alia madrasas, presents a distinctive fiscal

governance challenge. The Alia madrasa system, which follows a government-regulated curriculum, is integrated into the public education financing framework, with teachers receiving MPO support and the government providing textbooks and some infrastructure. The Qaumi madrasa system, which follows an independent curriculum, has historically operated outside government financing, though recent efforts to expand curriculum coverage and improve graduate certification have created new linkages.

The fiscal question of madrasa education involves both equity and quality dimensions. On equity: a significant proportion of madrasa students come from economically disadvantaged rural households, making the madrasa system an important channel for educational access for children who might otherwise not be in any school. On quality: independent assessments suggest that madrasa graduates, particularly those from the Qaumi system, have significant gaps in the secular curriculum knowledge (mathematics, science, English, and information technology) needed for formal sector employment and entrepreneurship. The result is a segment of the educated population that is formally credentialed but practically excluded from a large portion of the labor market, creating a specific pattern of educational marginalization that the budget should but does not adequately address.

13.8 Exam Questions: Chapter Thirteen

Questions for BEcon Examination

Define Productive Educational Expenditure and explain why it is a more analytically useful concept than total education spending as a percentage of GDP. Apply it to assess the quality of Bangladesh's FY2025-26 education allocation. (15 marks)

What is the learning crisis in Bangladesh? Identify four specific structural causes of the learning crisis and propose one fiscally feasible intervention for each cause. (20 marks)

Explain the Doctrine of Input-Outcome Inversion and provide three specific examples from Bangladesh's education budget where this inversion is visible. (12 marks)

Questions for BSS (Economics) Examination

What is the equity problem with public higher education financing in Bangladesh? Design a reformed higher education financing system that would address this equity problem while maintaining adequate access for students from disadvantaged backgrounds. (15 marks)

Explain the skills mismatch problem in Bangladesh's labor market. How should the TVET budget be redesigned to address this mismatch more effectively? (12 marks)

Questions for MSS (Economics) Examination

Using the concept of Sectoral Fiscal Metabolism, conduct a systematic analysis of how Bangladesh's primary education budget is converted into learning outcomes. Identify the most

important points of metabolic breakdown, drawing on evidence from national learning assessments, teacher absenteeism data, and program evaluation literature. (25 marks)

Apply the political economy of bureaucratic behavior (drawing on Wilson's concept of agency typology, the principal-agent framework, and the public choice tradition) to explain the persistent tendency in Bangladesh's education budget to favor inputs over outcomes. What institutional design changes would shift the incentive structure toward outcome orientation? (30 marks)

CHAPTER FOURTEEN: THE HEALTH BUDGET: OUT-OF-POCKET CATASTROPHE, UNIVERSAL COVERAGE, AND FISCAL STRATEGY

14.1 A New Definition: The Fiscal Catastrophe Index of Health Systems

The conventional measure of a health system's fiscal performance is the public health expenditure as a share of GDP or total health expenditure. These measures matter, but they obscure the most critical dimension of health finance from a welfare perspective: the proportion of healthcare costs that individuals bear from their own pocket, and the extent to which those out-of-pocket costs push households into financial hardship or poverty.

This textbook proposes a new organizing concept: the Fiscal Catastrophe Index of Health Systems (FCIHS), defined as the composite measure of the extent to which a health financing system fails to protect households from the financial consequences of ill health, incorporating three components: the out-of-pocket share of total health expenditure (higher means worse protection); the proportion of the population that experiences catastrophic health expenditure (defined as out-of-pocket spending exceeding 10 percent of household consumption) in any given year; and the proportion of the population impoverished by health spending (pushed below the poverty line after paying for healthcare).

Bangladesh's FCIHS score is alarming by any international comparison. Out-of-pocket spending accounts for approximately 67 to 70 percent of total health expenditure, meaning that two-thirds of every taka spent on healthcare in Bangladesh comes from individual patients' pockets rather than from the public budget or private insurance. This is among the highest out-of-pocket ratios in the world. Studies using national household expenditure data estimate that approximately 5 to 7 percent of Bangladesh's population experiences catastrophic health expenditure each year, and that health costs push approximately 2 to 3 percent of the population into poverty annually. These numbers translate into millions of households facing financial devastation from illness each year, an outcome that represents a fundamental failure of the social contract.

14.2 The Structure and Inadequacy of the Health Budget

The FY2025-26 health budget of Tk 41,908 crore represents an increase of just Tk 501 crore, less than 1.2 percent, over the FY2024-25 allocation. At approximately 0.67 percent of GDP, Bangladesh's public health expenditure is the lowest in South Asia, well below the WHO's recommended minimum of 5 percent of GDP for countries seeking to achieve universal health

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coverage and far below the South Asian average of approximately 1.8 percent. Bangladesh is, by this measure, the most fiscally neglectful country in the region with respect to its population's health.

The structural composition of the health budget is as important as its level. Approximately 55 to 60 percent of the public health budget is absorbed by salary and allowance payments for health workers, leaving only 40 to 45 percent for medicines, supplies, equipment, and program activities. Within this residual, a disproportionate share goes to capital construction (building new facilities) rather than operational funding for existing facilities. The result is a health system with extensive infrastructure (Bangladesh has a district hospital in every district, an Upazila Health Complex in most Upazilas, and a network of Community Clinics at the union level) that functions significantly below its designed capacity because the operational budget is insufficient to staff, equip, and maintain these facilities adequately.

Community clinics, Bangladesh's most important innovation in primary health care, illustrate this pattern clearly. Established from 1996 under the initiative of the first Hasina government and expanded to over 18,000 facilities across the country, community clinics were designed to provide a first point of contact for basic health services, maternal and child health, immunization, and essential medicines to rural populations. The program has achieved real results in immunization coverage, maternal health, and access to basic medicines. However, chronic underfunding of clinic operational costs (medicines, diagnostic supplies, and reliably present health workers) has limited the clinics' effectiveness and generated persistent complaints from users about facility closures and medicine stockouts.

A new concept introduced here is the Phantom Facility Problem: the pattern in which a country's health infrastructure, as measured by the number of facilities, significantly overstates its actual healthcare delivery capacity because the facilities exist on paper and in physical form but lack the operational resources to function consistently. Bangladesh's health system is characterized by phantom facilities at multiple levels: Upazila Health Complexes with unfilled specialist posts, district hospitals with broken equipment and inadequate medicines, and community clinics that are physically present but functionally unreliable.

14.3 Universal Health Coverage: The Aspiration and the Fiscal Gap

The government's stated goal of achieving universal health coverage (UHC) by 2030 represents one of the most ambitious health policy commitments in Bangladesh's history, one that is simultaneously important, worthy, and fiscally challenging to the point of near-impossibility under the current budget trajectory. UHC, as defined by the WHO, means that all people have access to the health services they need without suffering financial hardship. Bangladesh's current FCIHS score, as described above, suggests that the country is extraordinarily far from this aspiration.

Modeling UHC's fiscal cost for Bangladesh has been attempted by several research teams, including a WHO-supported exercise and work by Bangladesh's health economists at icddr,b and BIDS. These exercises, which estimate the additional public spending needed to ensure a defined essential health services package for all Bangladeshis, consistently find a fiscal gap in the range

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of 1 to 2 percent of GDP, meaning that Bangladesh would need to roughly triple its current public health expenditure (from 0.67 to perhaps 1.8 to 2.5 percent of GDP) to come close to UHC. This is not a small adjustment; it is a structural transformation of health financing that would require either dramatic revenue increases, significant reallocation from other sectors, or both.

The intermediate steps toward UHC that are fiscally feasible in the near term include: implementing a national health protection scheme for the poorest households (targeted initially at households already covered by social protection programs, with a mechanism to provide cashless access to a defined list of essential services); expanding the Essential Drug Supply program to ensure consistent availability of basic medicines at all public facilities; and investing in primary health care quality at the community clinic and Upazila levels rather than continuing to prioritize tertiary hospital construction.

14.4 Pharmaceuticals, TRIPS, and the LDC Health Fiscal Risk

Bangladesh's pharmaceutical sector, which supplies approximately 97 percent of the country's domestic drug demand and exports to over 150 countries, has developed under the shelter of the WTO TRIPS (Trade-Related Aspects of Intellectual Property Rights) waiver for LDCs, which exempts LDC governments from enforcing pharmaceutical patent rights and allows domestic manufacturers to produce generic versions of patented drugs without license fees. This waiver has been the single most important trade policy element supporting Bangladesh's pharmaceutical industry, enabling the production of affordable generic medicines for domestic use and creating a large export market in developing countries.

Bangladesh's LDC graduation in November 2026 will trigger the eventual end of this waiver. While transition arrangements provide some additional time (estimated at up to three years), the medium-term reality is that Bangladesh's pharmaceutical sector will face the requirement to comply with full TRIPS obligations, meaning it can no longer produce generic versions of currently patented drugs without license agreements. The health fiscal implications are severe: analysis suggests medicine prices could increase by approximately 20 percent or more for certain drug categories, significantly increasing out-of-pocket health costs for households and the procurement costs for public health facilities.

The fiscal response to this risk requires action on two fronts. First, Bangladesh must negotiate aggressively in international trade forums for the most favorable post-LDC transition arrangements possible, seeking extended transition periods, compulsory licensing provisions, and bilateral trade agreements that preserve access to affordable generics. Second, the domestic pharmaceutical sector should be supported to accelerate development of manufacturing capacity for drugs that it can legitimately produce under its own R&D and patent portfolio, reducing dependence on generic production under the TRIPS waiver.

14.5 Mental Health: The Missing Dimension of the Health Budget

Bangladesh's public health budget, inadequate as it is in aggregate, is particularly deficient in its allocation to mental health, a dimension of health that affects an estimated 15 to 18 percent of the

population at any given time (based on Bangladesh-specific epidemiological surveys) and that has been dramatically exacerbated by the cumulative social stresses of the COVID-19 pandemic, economic hardship, and the political trauma of the 2024 uprising.

Mental health receives approximately 0.44 percent of the national health budget, one of the lowest shares globally. The country has fewer than 300 psychiatrists for a population of approximately 170 million (a ratio of fewer than 2 per million, compared to the WHO recommendation of at least 1 per 100,000, meaning Bangladesh needs at least 1,700 psychiatrists). Psychiatric hospitals are few, concentrated in urban areas, and chronically underfunded. Community-based mental health services are virtually nonexistent. The stigma associated with mental illness in Bangladeshi society further reduces help-seeking behavior, meaning that the official treatment gap (the proportion of people with mental illness who receive no treatment) exceeds 90 percent.

The mental health fiscal deficit has concrete economic consequences beyond the welfare costs to individuals and families. Mental illness reduces labor productivity, increases absenteeism, impairs parental care of children (with intergenerational consequences), and increases the utilization of other health services for psychosomatic conditions. Studies from comparable developing countries suggest that investment in mental health treatment produces economic returns well above 1:1, meaning that the fiscal cost of providing basic mental health services is more than offset by the economic productivity gains from treating the condition.

14.6 Public Health Emergencies and Fiscal Preparedness

The COVID-19 pandemic exposed the inadequacy of Bangladesh's health system preparedness for large-scale public health emergencies. The Expanded Programme on Immunization (EPI), which receives an allocation of Tk 1,000 crore in the FY2025-26 budget, has been one of Bangladesh's most successful health programs, achieving high vaccination coverage for childhood immunizable diseases and successfully rolling out COVID-19 vaccines at scale when they became available. However, the broader emergency preparedness infrastructure, including disease surveillance systems, surge capacity in hospitals, stockpiles of essential medical supplies, and trained rapid response teams, remains inadequate.

A new principle applicable to health budget design is the Principle of Preparedness Dividend: the idea that investments in health system infrastructure, disease surveillance, and emergency response capacity produce returns not only during the specific emergencies they are designed to address but through the broader strengthening of the health system that occurs when emergency preparedness infrastructure is put in place. Training emergency response teams also improves routine response to acute illness. Building disease surveillance systems also improves chronic disease monitoring. Stockpiling essential medicines also improves drug supply management for routine services. The preparedness investment thus has a broad dividend that exceeds the direct return from emergency use.

14.7 Exam Questions: Chapter Fourteen

Questions for BEcon Examination

Define the Fiscal Catastrophe Index of Health Systems. Using Bangladesh's specific data, calculate a qualitative FCIHS score and compare it to two peer countries in South or Southeast Asia. (15 marks)

What is the Phantom Facility Problem in Bangladesh's health system? Provide three specific examples of facilities that exhibit this problem and explain the fiscal and governance failures that produce it. (12 marks)

How will Bangladesh's LDC graduation affect the health budget and pharmaceutical sector? What fiscal policy responses are most important in addressing this risk? (15 marks)

Questions for BSS (Economics) Examination

Describe the fiscal gap between Bangladesh's current public health spending and the level required to achieve universal health coverage by 2030. What are the most feasible pathways to closing this gap over the next five years? (15 marks)

Why does mental health receive such a small proportion of Bangladesh's health budget relative to its disease burden? What combination of fiscal, institutional, and social changes would be required to move toward adequate mental health funding? (12 marks)

Questions for MSS (Economics) Examination

Design a comprehensive health financing reform for Bangladesh that would significantly reduce the Fiscal Catastrophe Index within a ten-year period. Your design should address the insurance and protection mechanism, the primary care investment agenda, the pharmaceutical supply reform, and the governance changes needed to improve spending efficiency. Provide a detailed fiscal roadmap showing the additional resources required and their possible sources. (35 marks)

Using the concept of Sectoral Fiscal Metabolism, trace the pathway from a taka of health budget allocation to its impact (or non-impact) on the health status of a poor rural household in Bangladesh. Identify and quantify the most important metabolic leakages in this pathway, drawing on specific evidence from program evaluations and health facility assessments. (25 marks)

CHAPTER FIFTEEN: SOCIAL PROTECTION: THE SAFETY NET THAT DOES NOT CATCH EVERYONE

15.1 A New Definition: Protective Fiscal Coverage

Social protection systems are conventionally measured by two metrics: total social protection spending as a proportion of GDP, and the number of beneficiaries enrolled in specific programs. Both metrics are important but insufficient, because they can be satisfied by a system that spends substantial resources on inadequately targeted programs or that enrolls large numbers of

beneficiaries in programs whose benefits are too small to make a meaningful difference to welfare.

This textbook proposes a more demanding metric: Protective Fiscal Coverage (PFC), defined as the proportion of the population experiencing genuine economic vulnerability (defined as consumption below the poverty line or acute exposure to specific risks such as food insecurity, chronic illness, disability, or loss of primary earner) that receives social protection transfers adequate in size to materially improve their welfare situation.

PFC differs from conventional enrollment-based coverage metrics in two ways. First, it focuses on the genuinely vulnerable rather than the total enrolled population, which may include many non-poor beneficiaries due to targeting failures. Second, it imposes an adequacy threshold: a transfer that is too small to improve welfare is not counted as protection, regardless of whether it is formally enrolled in a program. Bangladesh's social protection system, by the PFC metric, performs significantly worse than its headline enrollment numbers suggest.

15.2 The Scale and Architecture of Bangladesh's Social Protection Budget

Bangladesh's social protection system is one of the most extensive in the developing world in terms of program variety, with over 140 individual programs administered by more than 20 ministries and departments. For FY2025-26, the total social safety net allocation was approximately Tk 1,16,730 crore, representing approximately 1.87 percent of GDP. This figure, while appearing substantial, includes several components that are either not genuine social protection or that primarily benefit non-poor populations.

The most significant source of inflation in Bangladesh's social protection budget figures has historically been the inclusion of civil service pensions, interest payments on national savings certificates, and agricultural subsidies in the social protection category. The FY2025-26 budget, to its credit, excluded NSC interest payments from the social protection total, representing a step toward more accurate reporting. But even with this correction, the social protection total overstates the resources genuinely directed at vulnerability reduction.

The major programs in Bangladesh's social protection architecture include the Old Age Allowance (for elderly poor, approximately 5.8 million beneficiaries in FY2025), the Allowance for Widows, Deserted and Destitute Women (approximately 2.4 million beneficiaries), the Disability Allowance, the Vulnerable Group Development (VGD) program for poor women, the Vulnerable Group Feeding (VGF) program for acute crisis situations, the Employment Generation Programme for the Poorest (EGPP), and various student stipend programs. This inventory of programs shows the breadth of Bangladesh's social protection architecture. Its depth, measured by benefit adequacy, is a different story.

15.3 The Adequacy Crisis: When Transfers Are Too Small to Protect

The most fundamental problem with Bangladesh's social protection system is not coverage breadth but benefit adequacy. The Old Age Allowance, for example, provides Tk 600 per month (approximately USD 5.50) to poor elderly persons. The national poverty line in 2022 was

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approximately Tk 2,700 per month for a single person in rural areas. A monthly transfer of Tk 600 thus represents about 22 percent of the poverty line for an individual, clearly insufficient to constitute genuine economic protection. The widows' allowance and disability allowance are of similar magnitude.

A doctrine relevant here is the Doctrine of Nominal Expansion, Functional Stagnation: the pattern by which social protection benefit values are periodically increased in nominal terms, generating favorable headlines about expanded support for the poor, while real benefit values (adjusted for inflation) stagnate or decline over time, and the gap between benefit levels and the actual cost of a minimum acceptable standard of living either stays constant or widens. Bangladesh has repeatedly increased social protection transfers in nominal terms in successive budgets, but the cumulative impact of years of high inflation (peaking above 10 percent in 2023-2024) has eroded the real value of these increases.

The appropriate benchmark for social protection transfer adequacy is not the poverty line but the cost of addressing the specific vulnerability that the transfer is designed to address. For an elderly person unable to work, the transfer should be sufficient to ensure access to food, basic health care, and shelter. For a widow with children, the transfer should be sufficient to prevent child labor and maintain school attendance. For a person with a severe disability, the transfer should address the additional costs of disability-related needs. By any of these benchmarks, Bangladesh's social protection benefits are seriously inadequate.

15.4 Targeting Performance and the Political Economy of Beneficiary Selection

Social protection targeting, the process of identifying who receives benefits, is the most politically contested dimension of the social protection system. The formal targeting criteria for most Bangladesh social protection programs specify income, age, gender, disability status, or household composition characteristics that define eligibility. The operational reality of targeting, however, is deeply shaped by local political economy dynamics.

At the union parishad level, where most beneficiary selection occurs, local elected officials (Union Parishad Chairmen and members) hold significant power over who is included in social protection beneficiary lists. Research by multiple institutions, including the World Bank, International Food Policy Research Institute, and Bangladesh Institute of Development Studies, has consistently found significant leakage of social protection benefits to non-poor households and exclusion of genuinely poor households, driven by a combination of political favoritism (rewarding supporters), corruption (demanding payments for inclusion), and information failures (inability of central government to verify beneficiary eligibility in remote locations).

The political economy of targeting is not a problem that can be solved by better forms or stricter rules alone. It requires changing the incentive structure facing local politicians and officials, which in turn requires either removing discretion from the selection process (through automated targeting based on objective data) or creating accountability mechanisms that make political manipulation of beneficiary lists costly. Bangladesh has piloted both approaches: the national social registry effort (which aims to create a data-driven basis for beneficiary identification) and the direct benefit transfer through mobile financial services (which reduces the scope for

intermediary manipulation of cash transfers). Neither approach has yet been implemented at sufficient scale to transform the system.

15.5 The Social Protection Response to Inflation and the Crisis of Adequacy

Bangladesh's social protection system was tested severely by the inflation surge of 2022 to 2024, when inflation peaked above 10 percent and food price increases hit poorer households particularly hard. The government's response included expansion of the Open Market Sales (OMS) program (subsidized food sales through TCB trucks and government retail points) and some additional beneficiary enrollment in existing cash transfer programs. However, these responses were inadequate to offset the real income losses experienced by poor households, for several reasons.

First, the OMS program required recipients to queue physically at distribution points, limiting access for working poor individuals (who cannot afford to spend hours in queues during working hours), those with mobility limitations, and those in areas distant from distribution points. Second, the incremental cash transfer increases were insufficient relative to the scale of inflation-induced real income decline. Third, the absence of an automatic indexation mechanism means that benefit values respond to inflation only when the government actively decides to adjust them, creating long lags during which the real value of protection erodes.

A new principle with direct relevance to this situation is the Principle of Dynamic Social Protection: the design of social protection systems to respond automatically to changes in economic conditions, through indexed benefit values, automatic enrollment triggers during crisis periods, and pre-financed emergency response mechanisms, reducing the dependence of the protective response on political decisions that are inherently slow and subject to competing pressures. Countries like India (with its MGNREGS guaranteed employment scheme, which automatically expands when demand rises) and Mexico (with its Prospera program's anti-cyclical design) offer models of dynamic social protection that Bangladesh should study for adaptation.

15.6 The National Social Registry: Progress and Challenges

The development of a National Social Registry (NSR) represents perhaps the most important institutional investment in the long-run improvement of Bangladesh's social protection system. The NSR aims to create a unified database of all households in Bangladesh, containing sufficient information about household characteristics, income, assets, and vulnerability to enable evidence-based beneficiary selection and eliminate the multiple, disconnected program registers that currently characterize the system.

The NSR project has been under development for several years, with support from the World Bank and other donors. Progress has been significant in technical terms: data collection methodologies have been developed, piloted, and refined. However, full national coverage remains incomplete, and the integration of the NSR with the operational systems of individual programs remains a major institutional challenge. Each program has its own ministry owner, its own implementation arrangements, and its own political constituency for the current targeting approach. Integrating these programs under a unified registry requires not only technical work

but political will to override the resistance of agencies that have built their institutional identities around their own targeting systems.

15.7 Exam Questions: Chapter Fifteen

Questions for BEcon Examination

Define Protective Fiscal Coverage and explain how it differs from conventional social protection coverage metrics. Using Bangladesh's Old Age Allowance as a specific example, assess Bangladesh's PFC performance. (15 marks)

Describe the adequacy crisis in Bangladesh's social protection system. What is the Doctrine of Nominal Expansion, Functional Stagnation and how does it explain this crisis? (12 marks)

What is the National Social Registry and why is it important for improving the performance of Bangladesh's social protection system? What are the main obstacles to its successful implementation? (12 marks)

Questions for BSS (Economics) Examination

Explain the political economy dynamics that shape beneficiary selection in Bangladesh's social protection programs. What institutional changes would reduce the influence of local political patronage on beneficiary lists? (15 marks)

What is the Principle of Dynamic Social Protection? Design a dynamic social protection mechanism for Bangladesh that would respond automatically to food price inflation spikes. Specify the trigger criteria, the benefit adjustment mechanism, and the financing arrangement. (15 marks)

Questions for MSS (Economics) Examination

Conduct a comprehensive political economy analysis of Bangladesh's social protection system, drawing on principal-agent theory, public choice economics, and the political economy of social policy. Identify the five most important politically determined distortions in the system and design institutional reforms to address each. (30 marks)

Apply the concept of Protective Fiscal Coverage to a systematic evaluation of Bangladesh's four largest social protection programs. For each program, estimate the PFC performance using available data and identify the specific improvements in targeting, benefit adequacy, and coverage that would most improve PFC. (25 marks)

CHAPTER SIXTEEN: THE AGRICULTURE BUDGET: FOOD SECURITY, SUBSIDY REFORM, AND RURAL TRANSFORMATION

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16.1 A New Definition: Structural Agricultural Fiscal Support

Agriculture in Bangladesh occupies a unique and multi-dimensional position in the national budget. It is simultaneously a productivity challenge (yield gaps and technology adoption), a food security imperative (ensuring adequate food availability for a population of 170 million), an environmental challenge (sustainable water management, climate adaptation), and a social policy instrument (rural income support and poverty reduction). Standard budget analysis, which focuses narrowly on the aggregate sectoral allocation, misses this multidimensionality.

This textbook introduces the concept of Structural Agricultural Fiscal Support (SAFS): the totality of fiscal interventions that shape agricultural productivity, food security, and rural welfare, including not only the direct agriculture budget (fertilizer subsidies, agricultural credit, research, extension) but also the indirect fiscal support provided through rural infrastructure investment (roads, irrigation, storage), rural education and health services that build the human capital of the agricultural workforce, and the trade and exchange rate policies that determine agricultural terms of trade.

SAFS is a broader and more analytically powerful concept than the conventional agriculture budget because it acknowledges that agricultural performance is determined by a system of fiscal and policy interventions, not by the agriculture ministry's budget alone. A government that cuts the direct agriculture budget while simultaneously investing heavily in rural roads, building cold chain logistics infrastructure, and supporting agricultural R&D through university funding may be providing stronger SAFS than one that nominally maintains agriculture ministry allocations while neglecting the complementary investments that determine whether those allocations actually reach farmers as improved productivity.

16.2 The Structure of Bangladesh's Agriculture Budget in FY2025-26

For FY2025-26, the Agriculture and Allied Sector received a total allocation of approximately Tk 46,268 crore, representing a 3.8 percent increase from the revised FY2024-25 budget. This aggregate covers agriculture, food, fisheries, and livestock, administered through multiple ministries: the Ministry of Agriculture, the Ministry of Food, the Ministry of Fisheries and Livestock, and the Bangladesh Agricultural Research Council (BARC) and its affiliated research institutes.

Within this allocation, agricultural subsidies constitute approximately 37 percent of the total, focused primarily on fertilizer subsidies (which make fertilizer available to farmers at below-market prices) and mechanization support (subsidies for small agricultural machinery). The fertilizer subsidy is particularly significant: Bangladesh subsidizes urea, triple super phosphate, muriate of potash, and other fertilizers, with the subsidy cost determined by the gap between international market prices (to which Bangladesh as a net importer is exposed) and the controlled domestic price.

Global urea prices rose from approximately USD 313.7 per metric ton in Q2 2024 to USD 403.8 per metric ton in early 2025, a 29 percent increase driven by natural gas price dynamics (urea is produced from natural gas) and geopolitical supply disruptions. This price increase significantly

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raised Bangladesh's fertilizer subsidy cost, as the government maintained domestic prices while absorbing the cost difference. The fiscal consequence was a higher-than-expected subsidy bill that put upward pressure on the agriculture budget.

16.3 Agricultural Research and Extension: The Chronically Neglected Investment

The single most important long-run determinant of agricultural productivity is the quality and adequacy of agricultural research and extension: the development of improved crop varieties, cultivation practices, pest management techniques, and soil and water management approaches, and their dissemination to farmers through an effective extension service. Bangladesh's agricultural research system, centered on the Bangladesh Agricultural Research Institute (BARI), Bangladesh Rice Research Institute (BRRI), Bangladesh Jute Research Institute (BJRI), and several other specialized institutes, has a proud record of variety development: the adoption of BRRI-developed high-yielding rice varieties has been central to Bangladesh's achievement of rice self-sufficiency.

However, the research system is chronically underfunded relative to its mandate and its potential. Total investment in agricultural research and development, including both government and donor-funded programs, represents a small fraction of agricultural GDP, well below the 1 percent of agricultural GDP target that international agricultural research organizations recommend as a minimum for maintaining research system vitality. The consequence is a research system that is gradually losing momentum: researcher numbers are growing slowly, facilities are aging, and the competitive salary levels needed to retain the most talented agricultural scientists against private sector and international opportunities are not available under the current pay structure.

Agricultural extension, the system for disseminating research findings to farmers, faces even more severe institutional challenges. Bangladesh's system of Sub-Assistant Agriculture Officers (SAAOs), who provide frontline extension services to farmers at the union level, is nominally extensive (approximately 12,000 SAAOs nationwide) but functionally weak. SAAOs have limited technical training, inadequate transport to reach farmers in scattered locations, insufficient access to current research findings, and career incentive structures that do not reward genuine farmer contact and advisory service. The result is an extension system that farmers often bypass in favor of input dealers, who may be providing commercially motivated rather than technically optimal advice.

16.4 The Fisheries Sector: Blue Economy and Fiscal Opportunity

Bangladesh's fisheries sector, which contributes approximately 3.6 percent of GDP directly and supports the livelihoods of approximately 18 million people engaged in fishing and fish processing, is one of the country's most productive economic sectors per unit of fiscal investment. Bangladesh is among the world's top fish-producing countries, with both marine (Bay of Bengal) and inland (rivers, ponds, and floodplains) fisheries contributing substantially.

The Blue Economy concept, which views the ocean and coastal zone as a resource base for sustainable economic development, has significant potential for Bangladesh given its 710-

kilometer coastline and its exclusive economic zone in the Bay of Bengal. Marine fisheries, offshore energy resources, maritime shipping, sea-based tourism, and offshore aquaculture all represent dimensions of the Blue Economy that Bangladesh has only partially developed.

The FY2025-26 fisheries budget, at approximately Tk 2,500 crore (within the broader agriculture allocation), provides only modest support for fisheries development relative to the sector's economic significance and potential. Key investment needs that are chronically underfunded include marine fisheries management (surveillance to prevent illegal, unreported, and unregulated fishing; enforcement of closed season regulations; fish stock assessment), inland fisheries habitat management (restoration of degraded wetlands and floodplain fisheries), aquaculture technology improvement (disease management, feed quality, genetic improvement of farmed species), and fish processing and cold chain development to reduce post-harvest losses and improve export competitiveness.

16.5 Land and Agricultural Productivity: The Structural Challenge

Bangladesh's agricultural productivity challenge is inseparable from its land situation. With a population density among the highest in the world and a total land area of approximately 147,000 square kilometers, Bangladesh faces severe pressure on agricultural land from urbanization, industrialization, and infrastructure development. The conversion of agricultural land to non-agricultural use has been occurring at approximately 80,000 to 100,000 hectares per year, a rate that, if sustained, will significantly reduce the country's agricultural land base within a decade.

The budget's response to agricultural land pressure has been primarily through yield improvement (producing more per hectare from the remaining agricultural land) rather than land use regulation, which remains weak and politically contested. Cropping intensity (the average number of crops grown on a unit of land per year) has increased to approximately 200 percent, meaning two crops per year on average, which is already high by international standards. Further yield improvement requires technological upgrading: better seeds, more precise input application, improved irrigation management, and adoption of precision agriculture techniques.

The fiscal investment in agricultural technology adoption, particularly through the subsidized distribution of improved seeds and the promotion of mechanization, is one of the more productive uses of the agriculture budget. However, the distribution system for improved seeds through the Bangladesh Agricultural Development Corporation (BADC) has historically been characterized by quality control problems, political interference in distribution networks, and inadequate reach to the most remote farming communities.

16.6 Agricultural Finance: The Credit Gap and the Budget's Role

Access to agricultural credit is a major constraint on farm productivity improvement, particularly for small and marginal farmers who lack the collateral required to access formal bank credit on commercial terms. Bangladesh's agricultural credit system operates through a combination of Bangladesh Bank's mandatory agricultural credit disbursement targets for commercial banks, the specialized agricultural lenders (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank), and the agricultural microcredit operations of NGOs like BRAC and Grameen Bank.

The budget's role in agricultural finance is primarily indirect: through the interest rate subsidy that makes agricultural credit available at below-market rates, through the capitalization of specialized agricultural lending institutions, and through the guarantee schemes that reduce credit risk for lenders and borrowers. The FY2025-26 budget's concern about crowding out of private credit (including agricultural credit) by government domestic borrowing represents a real fiscal-credit interaction that the government should manage carefully, as documented in Chapter Five.

Agricultural insurance, which is essential for managing the production risk that makes credit access so difficult for poor farmers, remains extremely limited in Bangladesh. The government has piloted weather-indexed crop insurance in several districts, but rollout has been slow and the fiscal subsidy needed to make insurance premiums affordable for smallholders has not been systematically budgeted. Climate change makes agricultural insurance increasingly important as weather-related production shocks become more frequent and severe.

16.7 Exam Questions: Chapter Sixteen

Questions for BEcon Examination

Define Structural Agricultural Fiscal Support and explain why it is a more useful concept for analyzing government support to agriculture than the conventional agriculture ministry budget. Apply it to assess the overall level of fiscal support to Bangladesh's agriculture sector in FY2025-26. (15 marks)

What is the impact of rising global urea prices on Bangladesh's fertilizer subsidy budget? Describe two alternative fiscal strategies for managing this cost that would be more sustainable than the current open-ended price subsidy. (12 marks)

Why is agricultural research and extension investment chronically underfunded in Bangladesh relative to its economic importance? What institutional reforms would correct this underinvestment? (12 marks)

Questions for BSS (Economics) Examination

Describe the Blue Economy concept and its fiscal potential for Bangladesh. What specific budget investments would be required to develop Bangladesh's Blue Economy in fisheries, offshore energy, and maritime transport? (15 marks)

Explain the agricultural land pressure facing Bangladesh and the budget's role in managing it. Is yield improvement a sufficient response to agricultural land loss? What other fiscal instruments should be employed? (12 marks)

Questions for MSS (Economics) Examination

Design a comprehensive agricultural fiscal reform strategy for Bangladesh that addresses fertilizer subsidy reform, agricultural R&D investment, extension system transformation, and agricultural credit access. Your strategy should be fiscally costed, politically feasible, and

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consistent with Bangladesh's food security, rural poverty reduction, and climate adaptation objectives. (35 marks)

Using the theory of agricultural transformation (drawing on Johnston and Mellor, Schultz, and more recent work on agricultural structural change), analyze Bangladesh's agricultural fiscal strategy. Is Bangladesh investing adequately in the agricultural transformation needed to support economic modernization, and what changes in budget composition would better serve that transformation? (25 marks)

CHAPTER SEVENTEEN: THE ENERGY BUDGET: SUBSIDIES, TRANSITION, AND FISCAL SOVEREIGNTY

17.1 A New Definition: Energy Fiscal Dependence

The energy sector's relationship with the national budget in Bangladesh is unlike any other sector's. In most sectors, the government's fiscal role is to provide public goods and services that the market would underprovide. In energy, the government's fiscal role has become primarily one of managing the gap between the cost of energy supply and the prices that regulated consumers are allowed to pay, through a subsidy mechanism that has consumed enormous fiscal resources and created complex dependencies.

This textbook introduces the concept of Energy Fiscal Dependence (EFD): the degree to which the fiscal position of the national government is structurally determined by the dynamics of the energy sector, including the cost of fuel imports, the price of power generation, and the administered pricing decisions that determine whether those costs are borne by consumers or by the budget. A country with high EFD is one in which energy sector dynamics (import prices, exchange rate movements, domestic production levels) have large, direct, and relatively unpredictable effects on the fiscal balance, making fiscal planning genuinely difficult because a major portion of the government's expenditure commitment is market-price-determined rather than policy-determined.

Bangladesh's EFD has been very high since 2021, driven by the combination of global energy price volatility (the post-COVID commodity surge and the Russia-Ukraine war impact on fuel prices), the government's history of maintaining administered energy prices well below market levels (creating large subsidies), and the increasing share of imported LNG in Bangladesh's gas supply mix (creating exposure to global LNG spot prices). The fiscal cost of energy subsidies, which reached approximately USD 4 billion equivalent in FY2022 before a series of price adjustments began reducing the gap, demonstrated the fiscal danger of high EFD in an era of global energy price volatility.

17.2 The Power Sector: Overcapacity, Capacity Payments, and the Budget

Bangladesh's power sector presents one of the most complex fiscal challenges in the budget. In the 2000s, Bangladesh faced chronic power shortages that constrained economic activity. The

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government responded with a rapid expansion of power generation capacity, primarily through private sector power purchase agreements (PPAs) that guaranteed electricity purchases from private generators at agreed prices, with government-backed offtake guarantees. This policy successfully added generating capacity and eliminated load shedding in urban areas.

However, by the late 2010s, the expansion of generation capacity had outrun demand growth, creating a situation in which Bangladesh was paying capacity charges for power plants that were not being dispatched because there was insufficient demand for their electricity. Capacity payments, which are paid to power plant owners regardless of actual generation, became a major and growing fiscal burden. In FY2024-25, capacity payments to independent power producers (IPPs) were estimated at over Tk 30,000 crore, representing a very significant off-budget quasi-fiscal cost borne by the Bangladesh Power Development Board (BPDB) and ultimately guaranteed by the government.

The FY2025-26 budget's power sector allocation was reduced by approximately 30 percent from the previous year, reflecting the government's determination to reduce the fiscal burden of the power sector. The strategy for doing so includes renegotiating the most costly PPAs, not signing new conventional power plant agreements, and seeking to reduce the minimum guaranteed offtake quantities in existing agreements. The plan to reduce overall power generation costs by 10 percent is ambitious given the contractual constraints of existing PPAs but represents an important fiscal consolidation objective.

The energy sector transition, toward renewable energy sources particularly solar power, offers a medium-term path to reducing EFD and improving fiscal sustainability. The government's Renewable Energy Policy targets 20 percent of electricity supply from renewable sources by 2030 and 30 percent by 2040. Achieving these targets requires an estimated USD 980 million annually in renewable energy investment. The FY2025-26 budget reduced customs duty on imported solar inverters, a small but directionally correct step. However, as analysis by the World Economic Forum and IEEFA points out, more comprehensive fiscal and regulatory support is needed to accelerate renewable energy deployment, including tariff relief on other solar components, payment security mechanisms for renewable energy producers, and a clear regulatory framework for distributed generation.

17.3 Natural Gas: Domestic Production, LNG Import, and Fiscal Risk

Bangladesh's natural gas sector is central to the country's energy security and fiscal position. Domestic natural gas, produced from onshore fields primarily in Sylhet, Comilla, and Chittagong regions, has historically provided a cheap source of energy for power generation, fertilizer production (Titas Gas feeds urea plants), industrial use, and household cooking. As domestic reserves have gradually depleted and demand has grown, Bangladesh has become increasingly dependent on imported liquefied natural gas (LNG), which is purchased on international spot and long-term markets at prices far higher than the cost of domestic production.

The LNG transition has dramatically increased the energy import bill and reduced the government's fiscal control over energy costs, since LNG prices are determined by international markets. The government's plan to increase domestic gas production, through drilling at least 17

new wells and by expanding exploration in the Bay of Bengal, is fiscally critical: every additional cubic foot of domestic gas reduces LNG import dependence and its associated fiscal and external balance risks.

The fiscal implications of the gas sector extend to the fertilizer industry, which uses natural gas as a feedstock for urea production. Petrobangla, the state gas company, has faced growing financial stress as it sells gas to fertilizer companies at regulated prices below LNG import cost, creating a quasi-fiscal loss that ultimately falls on the government's balance sheet.

17.4 Renewable Energy: The Green Fiscal Imperative

The case for accelerating renewable energy investment in Bangladesh rests on multiple fiscal arguments that this textbook consolidates under the Green Fiscal Imperative: the principle that investment in renewable energy capacity is not merely an environmental choice but a fiscally rational strategy for reducing long-run energy import dependence, stabilizing the energy cost component of the budget, and building energy system resilience against global fossil fuel price volatility.

The economics of renewable energy have transformed dramatically over the past decade. Solar photovoltaic costs have fallen by approximately 90 percent since 2010, making solar power competitive with or cheaper than fossil fuel generation in most contexts. Bangladesh, with high solar irradiation levels (approximately 5 kWh per square meter per day average), is well-positioned for large-scale solar deployment.

The fiscal barriers to renewable energy deployment in Bangladesh are primarily policy and institutional rather than economic. Private investors in renewable energy face significant risks: power purchase agreement terms that are less favorable than those available to conventional generators, grid integration challenges, land acquisition difficulties, and payment security risk from BPDB (whose financial position is stressed by capacity payments to conventional plants). Addressing these barriers requires fiscal interventions including payment guarantee mechanisms, streamlined land acquisition for solar farms, and reformed PPA terms that make renewable energy investment commercially attractive.

17.5 Energy Access and the Rural Fiscal Dimension

Bangladesh's achievement in rural electrification, primarily through the Rural Electrification Board (REB) and the cooperative palli biddyut samities (rural electricity distribution cooperatives), has been remarkable: approximately 97 percent of rural households now have electricity connections, compared to approximately 20 percent in 2000. This achievement, supported by sustained government investment and institutional development, has transformed rural life, enabling longer productive hours, improved educational outcomes (students can study in the evening), reduced reliance on kerosene (with positive health effects), and new economic possibilities including refrigeration and power tools for rural enterprises.

The fiscal challenge of maintaining and deepening this achievement involves ensuring the commercial sustainability of the rural electricity system, addressing the quality of supply

(frequent outages in many rural areas reflect distribution system weakness), and expanding electricity access to the very poorest households who are connected to the grid but cannot afford to consume electricity because of its price.

The Solar Home System (SHS) program, which provided solar electricity to approximately 4.3 million households in areas that were off-grid or had unreliable grid connections, represents one of Bangladesh's most celebrated energy access innovations. The program, scaled by Infrastructure Development Company Limited (IDCOL) with government and donor support, achieved rapid penetration through innovative business models involving microfinance and local dealer networks. As grid extension has reached most rural areas, the SHS program's scale has contracted, but its model offers lessons for other distributed energy solutions including clean cooking energy and mini-grid systems.

17.6 Exam Questions: Chapter Seventeen

Questions for BEcon Examination

Define Energy Fiscal Dependence and explain why Bangladesh has high EFD. What are the three most important channels through which energy sector dynamics affect the national fiscal position? (15 marks)

Explain the power sector overcapacity problem in Bangladesh. How did it arise, and what fiscal strategies is the government using to reduce the capacity payment burden? (12 marks)

What is the Green Fiscal Imperative? How does it justify renewable energy investment as a fiscally rational strategy rather than merely an environmental choice? (12 marks)

Questions for BSS (Economics) Examination

Analyze the fiscal implications of Bangladesh's growing dependence on imported LNG. What domestic production and demand management measures could reduce this dependence, and what are their fiscal costs and benefits? (15 marks)

Describe the renewable energy investment barriers facing private investors in Bangladesh. Design a fiscal support package that would overcome these barriers and accelerate renewable energy deployment toward the 2030 targets. (15 marks)

Questions for MSS (Economics) Examination

Design a comprehensive energy sector fiscal reform strategy for Bangladesh covering power sector (addressing capacity payments and the path to renewable energy), gas sector (domestic production acceleration, LNG risk management), and energy subsidy reform (transition to cost-reflective pricing with targeted protection for vulnerable households). Your strategy should include a detailed fiscal costing and a political economy analysis of the main obstacles to implementation. (40 marks)

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CHAPTER EIGHTEEN: THE INFRASTRUCTURE BUDGET: CONNECTIVITY, CONTROVERSY, AND RETURN ON INVESTMENT

18.1 A New Doctrine: The Doctrine of Infrastructure Sequencing

Infrastructure investment is the most capital-intensive and politically consequential component of Bangladesh's public budget. Major infrastructure projects consume billions of takas over multi-year implementation periods, generate significant economic returns when executed well, and create substantial fiscal risks (cost overruns, implementation delays, contingent liabilities) when executed poorly. They also concentrate political benefits in specific geographies and time periods in ways that create powerful incentives for politically motivated infrastructure decisions.

The Doctrine of Infrastructure Sequencing holds that the economic return to infrastructure investment is critically dependent not only on the quality of individual projects but on the order in which projects are built, so as to ensure that each investment creates the complementary conditions that maximize the return to subsequent investments. A road to a market is most valuable when a market exists and farmers have surpluses to sell. A port expansion is most productive when there are goods being produced in sufficient volume to justify the additional throughput. A power plant expansion generates the highest return when industrial demand is ready to absorb the power.

Bangladesh has not always followed the logic of infrastructure sequencing. The simultaneous investment in numerous large infrastructure projects (Padma Bridge, Dhaka Metro Rail, various expressways, Rooppur Nuclear Power Plant, Matarbari Coal Power Plant, Payra Port expansion, and others) has created execution capacity constraints that have contributed to delays and cost overruns across multiple projects simultaneously. A more sequenced approach, which would have prioritized the projects with the highest immediate connectivity returns and deferred others until execution capacity was demonstrated, might have produced higher aggregate economic returns from the same fiscal investment.

18.2 Transport and Connectivity: The Dominant ADP Sector

Transport and communication has consistently been the single largest recipient of ADP investment in Bangladesh's budget, absorbing approximately 25 to 30 percent of annual development investment. For FY2025-26, transport and communication remained among the top three ADP sectors, along with power and energy.

The rationale for prioritizing transport investment is strong. Bangladesh's economic geography, characterized by a dense population spread across a deltaic river plain with limited hard road surfaces and significant seasonal flooding, creates genuine connectivity challenges that constrain agricultural market integration, labor mobility, and industrial location decisions. Road investment generates high economic returns in Bangladesh because each increment of connectivity creates positive externalities for many economic agents (farmers, traders, workers, and businesses) in the catchment area.

The key analytical distinction relevant to the transport budget is between connectivity-enhancing investment (which opens new areas to trade and mobility, breaking fundamental geographic isolation) and congestion-reducing investment (which improves the efficiency of already-connected corridors). In a country like Bangladesh that still has significant geographic isolation in haor areas, char lands, coastal islands, and remote hill districts, connectivity-enhancing investment tends to have higher social returns and larger poverty-reduction effects than congestion reduction in already-connected urban corridors. The balance of Bangladesh's transport investment between these two categories is an important policy question that deserves more systematic analysis than it currently receives.

The Padma Bridge, completed in 2022 at a total cost exceeding Tk 30,000 crore and funded entirely from domestic resources, represents the most high-profile infrastructure investment decision in Bangladesh's history. Post-completion economic analysis by SANEM and World Bank researchers has found significant positive economic impacts in the southwestern districts connected by the bridge, including increases in agricultural commodity prices (reflecting improved market integration), new industrial investment in Export Processing Zones near the bridge, and accelerated urbanization of Mawa-Bhanga corridor towns. These benefits, while real, need to be evaluated against the opportunity cost of the resources invested, which could alternatively have funded primary education, health care, or multiple smaller connectivity-enhancing projects in more isolated areas.

18.3 Mega Projects: Fiscal Governance and the Accountability Gap

Bangladesh has a cluster of major infrastructure projects under various stages of implementation that collectively represent a multi-trillion taka commitment of public resources. These include the Rooppur Nuclear Power Plant (financed primarily by Russian credit at a cost exceeding USD 12 billion, making it the largest single infrastructure contract in Bangladesh's history), the Dhaka Mass Rapid Transit (Metro Rail) system (multiple lines financed primarily by Japanese ODA), the Matarbari Ultra Super Critical Coal Power Plant (financed by Japanese ODA), the Payra Sea Port development, and various expressway and elevated road projects.

The fiscal governance of these mega projects presents challenges that standard project management frameworks are not equipped to address. Mega projects generate their own political economies: they attract powerful contractors (domestic and international) with strong incentives to influence project design and cost estimation; they create path dependencies once construction begins (it becomes politically and economically very costly to stop or redesign a half-built mega project); and they generate long-run fiscal commitments (debt service, maintenance, and operational costs) that extend decades beyond the political horizon of the decision-makers who approved them.

A doctrine of particular relevance here is the Doctrine of Mega Project Fiscal Accountability: the principle that infrastructure projects above a defined size threshold should be subject to enhanced fiscal scrutiny requirements, including independent cost-benefit analysis by a body not under the control of the implementing ministry, real-time cost monitoring with parliamentary disclosure, a predetermined review trigger if costs exceed projections by a defined percentage, and a post-

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completion evaluation within five years that compares actual economic benefits against those projected at the time of approval.

Bangladesh currently lacks systematic mega project fiscal accountability mechanisms. The Planning Commission reviews project proposals, but its review capacity is limited, its independence from implementing ministries is imperfect, and the post-completion evaluation function is chronically underfunded and weakly enforced.

18.4 Urban Infrastructure and the Challenge of Dhaka

Dhaka, Bangladesh's capital and largest city, is one of the most densely populated urban areas in the world, with an estimated population of 22 to 23 million in the greater metropolitan area and a density that exceeds 44,000 persons per square kilometer in the most congested inner-city areas. The city's infrastructure, including its road network, sewerage system, water supply, drainage, and solid waste management, is chronically overwhelmed by a rate of urbanization that has consistently outpaced public infrastructure investment.

The fiscal challenge of Dhaka reflects several compounding problems. The institutional fragmentation of Dhaka's governance, divided among Dhaka North City Corporation, Dhaka South City Corporation, the Capital Development Authority (Rajuk), the Water and Sewerage Authority (WASA), and numerous other national government agencies with overlapping mandates, creates coordination failures that prevent integrated infrastructure planning. The limited own-source revenue of the city corporations (property tax yields that are far below the revenue that a well-functioning property valuation and collection system would generate) means that Dhaka is chronically dependent on national budget transfers for its infrastructure, limiting local agency and accountability.

The ADP allocation for Dhaka metropolitan infrastructure, while substantial in absolute terms, has been fragmented across too many agencies with insufficient coordination to produce the integrated infrastructure improvements needed. The metro rail system, when fully operational on multiple lines, has the potential to significantly reduce traffic congestion and improve urban mobility. However, the surface road network, the drainage system (inadequate to handle monsoon rainfall, resulting in regular urban flooding), and the water and sanitation infrastructure require parallel investment that has not been proportionately funded.

18.5 Climate-Resilient Infrastructure: The Adaptation Imperative

Bangladesh's infrastructure investment must increasingly be designed and evaluated not only for its economic productivity but for its resilience against climate change impacts, including more intense cyclones, greater monsoon rainfall variability, sea-level rise, and riverine flooding. Infrastructure built to historical design standards that do not account for the projected intensification of these hazards faces significant risk of premature damage, destruction, or functional obsolescence, creating fiscal losses that far exceed the cost of climate-proofing the infrastructure at the time of construction.

The IMF's Resilience and Sustainability Facility arrangement with Bangladesh, which provides dedicated climate-focused financing, supports the development of climate-responsive public investment management, including the integration of climate risk screening into project appraisal, the development of climate-resilient design standards for infrastructure, and the building of capacity within the Planning Commission and implementing agencies to assess and manage climate risk in investment decisions.

The most fiscally critical dimension of climate-resilient infrastructure for Bangladesh is coastal embankment and flood management. The existing network of coastal polders (embanked areas protected from tidal and storm surge flooding) covers approximately 2.8 million hectares of the most densely settled coastal zone. Many of these polders are in varying states of disrepair, with embankments that have been eroded by cyclones, subsidence, and inadequate maintenance. Reconstructing and maintaining the coastal embankment system to climate-resilient standards would cost tens of billions of takas over the next decade, a commitment that is not fully reflected in the current ADP investment pipeline.

18.6 Exam Questions: Chapter Eighteen

Questions for BEcon Examination

Define the Doctrine of Infrastructure Sequencing and explain why Bangladesh has not always followed its logic. Give a specific example of an infrastructure investment that did not follow appropriate sequencing and explain the consequences. (15 marks)

Distinguish between connectivity-enhancing and congestion-reducing infrastructure investment. Which category should Bangladesh's transport budget prioritize and why? (12 marks)

What is the Doctrine of Mega Project Fiscal Accountability? Identify three specific features of Bangladesh's current governance framework for mega projects that this doctrine would require to be changed. (12 marks)

Questions for BSS (Economics) Examination

Analyze the post-completion economic impacts of the Padma Bridge. What evidence is available on its economic benefits and how should they be evaluated against the opportunity cost of the investment? (15 marks)

Describe the infrastructure governance challenges of Dhaka's metropolitan area. What institutional reforms would improve the effectiveness of infrastructure investment in Bangladesh's capital? (12 marks)

Questions for MSS (Economics) Examination

Develop a climate-resilient infrastructure investment strategy for Bangladesh's coastal zone. Your strategy should specify the investment priorities (coastal embankments, drainage, urban flood management), the cost estimates, the design standards, and the institutional arrangements

for project implementation and maintenance. Provide a financing plan that combines national budget resources, climate finance instruments, and multilateral lending. (35 marks)

CHAPTER NINETEEN: THE BANKING SECTOR AND THE BUDGET: STATE BANKS, NON-PERFORMING LOANS, AND FISCAL RISK

19.1 A New Definition: Banking Sector Fiscal Absorption

The relationship between the banking sector and the national budget is one of the most complex and least understood dimensions of Bangladesh's fiscal system. In the conventional public finance literature, banks are largely treated as private actors that intermediate savings and investment outside the fiscal domain. In Bangladesh's reality, the banking sector is deeply entangled with the public budget through multiple channels: the state-owned commercial banks, which hold a large share of total bank assets, have implicit government guarantee of their liabilities; the banking system is the primary channel through which the government finances its fiscal deficit; and the banking sector's health or distress has direct consequences for the government's fiscal position through the eventual cost of recapitalization of distressed state banks.

This textbook introduces the concept of Banking Sector Fiscal Absorption (BSFA): the total fiscal cost absorbed by the government, both on-budget and off-budget, as a consequence of the banking sector's financial position. BSFA includes explicit budget transfers to state-owned banks (recapitalization), implicit subsidies through preferential access to Bangladesh Bank facilities, the cost of guarantees and contingent liabilities, and the opportunity cost of government securities holdings that banks absorb in lieu of private lending.

Bangladesh's BSFA has been very high and increasing in the period 2020 to 2025. The state-owned commercial banks, particularly Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank, have accumulated enormous volumes of non-performing loans (NPLs) through a combination of politically directed lending to connected borrowers, inadequate credit risk management, and corporate governance failures that allowed large borrowers to roll over and evergreen problem loans without recognition. As of April 2026, the World Bank's Bangladesh Development Update reports that capital shortfall in 23 banks has reached approximately Tk 2.82 lakh crore, a figure that represents a very severe systemic banking sector crisis.

19.2 The Non-Performing Loan Crisis: Magnitude, Origins, and Fiscal Consequences

Bangladesh's banking sector NPL crisis is one of the most severe in Asia relative to the size of the financial system. Official NPL data, which showed NPLs at approximately 8 to 10 percent of total loans before the 2024 uprising, significantly understated the true problem because of widespread practices of loan rescheduling (restructuring problem loans to avoid NPL classification), inadequate provisioning against expected losses, and outright data manipulation in some state-owned banks.

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Post-uprising reassessments, supported by the interim government's more aggressive supervisory approach and IMF program conditionalities requiring asset quality reviews, have revealed NPL levels significantly higher than official data suggested. Some estimates place the true NPL ratio, including restructured and evergreened loans that are de facto non-performing, at 20 to 30 percent of total banking sector loans, a level that would represent one of the most severe banking crises in the developing world.

The origins of the NPL crisis reflect a combination of structural failures that have been documented repeatedly in successive central bank inspections and analytical reports. Politically directed lending, under which bank officials approved loans to connected borrowers under political pressure, bypassing standard credit risk assessment, has been the most important driver in state-owned banks. Weak credit risk management, reflecting both inadequate technical capacity and organizational cultures that penalized caution and rewarded loan growth, amplified the problem across both state-owned and private commercial banks. Inadequate legal frameworks for collateral enforcement and loan recovery, making it extremely difficult to foreclose on defaulting borrowers' assets, reduced the deterrent effect of NPL consequences for borrowers.

19.3 State-Owned Bank Recapitalization: The Fiscal Cost of Banking Failure

The fiscal cost of recapitalizing Bangladesh's state-owned commercial banks has been substantial and recurrent. Successive governments have injected capital into state-owned banks when their capital positions fell below regulatory minimums, using direct budget allocations that transfer public resources to financial institutions whose losses were often created by politically directed lending decisions. This pattern represents a form of fiscal impunity for banking sector governance failure: the private gains from politically connected lending (enjoyed by borrowers and, in cases of corruption, by bank insiders) are socialized onto the public budget, while the public receives no share of any gains.

The IMF's January 2026 Article IV consultation conclusion explicitly called for a "credible banking sector reform strategy consistent with international standards to restore banking sector stability," including asset quality reviews for all systemic and state-owned banks and "legally robust restructuring and resolution plans." The IMF's approach, which draws on the global framework for banking crisis management, calls for a sequenced process: first, accurate identification of the true extent of losses through asset quality review; second, determination of the capital needed to restore banks to viability; third, decision on which banks can be recapitalized (if they are systemically important and viable as restructured entities) and which should be resolved (wound down or merged with healthier institutions); and fourth, implementation of the recapitalization or resolution with appropriate protection for small depositors.

The fiscal cost of this process is potentially very large. Accurate estimates depend on the results of the asset quality reviews that were underway as of early 2026, but preliminary estimates from IMF analysis suggested that the total recapitalization need for the state-owned banking sector alone could amount to several percentage points of GDP, a fiscal shock that would be significant even for a country with stronger fiscal buffers than Bangladesh currently possesses.

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19.4 Bangladesh Bank, Monetary Policy, and Fiscal-Monetary Coordination

The relationship between fiscal and monetary policy is central to Bangladesh's macroeconomic management, and the independence of Bangladesh Bank (the central bank) from fiscal pressure is an important institutional condition for macroeconomic stability. The IMF's program has included conditionalities specifically directed at strengthening Bangladesh Bank's operational independence, ending quasi-fiscal lending schemes (through which Bangladesh Bank provided subsidized credit to certain sectors on behalf of the government), and modernizing the monetary policy framework.

Bangladesh Bank's reserve position, after falling dramatically from USD 48 billion (gross) in August 2021 to below USD 20 billion (net) in 2023, has begun to recover with the support of IMF program financing, improved remittance inflows, and a more flexible exchange rate. By April 2025, gross foreign exchange reserves had recovered to approximately USD 27.4 billion, a level that provides some but not abundant buffer against external shocks.

The exchange rate reform, which moved Bangladesh from a managed peg (with significant central bank intervention to keep the taka within a narrow band) toward a more flexible market-determined rate, represents one of the most significant monetary policy reforms in Bangladesh's recent history. The reform, which IMF conditionality required, has allowed the taka to depreciate toward its market equilibrium, reducing the misalignment that was draining reserves and creating distortions in the trade and financial sectors. The fiscal consequences of exchange rate adjustment include higher taka costs of servicing dollar-denominated external debt, which has increased the interest payment burden on the budget.

19.5 Capital Market Development and the Budget

Bangladesh's capital market, centered on the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE), remains relatively underdeveloped as a source of long-term finance for private investment and government borrowing. Market capitalization as a proportion of GDP is low by regional standards, trading is dominated by retail investors with high risk tolerance and short time horizons, institutional investor participation is limited, corporate governance standards are inconsistently applied, and the regulatory framework has been subject to credibility crises related to market manipulation scandals.

The budget's relationship with the capital market is both direct (the government raises debt through the issuance of treasury bills and bonds that are traded on the secondary market, affecting the yield curve and market liquidity) and indirect (through the fiscal and regulatory environment that determines the attractiveness of equity investment). Budget policies that affect corporate taxation (the corporate tax reduction for publicly listed companies in the FY2026 budget), the treatment of capital gains, and the regulatory framework for market intermediaries all have implications for capital market development.

Deepening Bangladesh's capital market is a long-run fiscal priority because a well-functioning capital market reduces the government's dependence on bank financing for its deficit, provides an alternative source of long-term finance for infrastructure and private investment, and creates

institutional investor demand for government securities that reduces financing costs. The fiscal investment needed to achieve this includes not only regulatory reforms but the development of a pension fund system that creates long-term institutional investors.

19.6 Exam Questions: Chapter Nineteen

Questions for BEcon Examination

Define Banking Sector Fiscal Absorption and explain the channels through which Bangladesh's banking sector creates fiscal costs for the government. Which channel is currently most significant? (15 marks)

What are the origins of Bangladesh's non-performing loan crisis? How does politically directed lending create fiscal costs that are borne by the public rather than by the politically connected borrowers who benefit from the lending? (15 marks)

What reforms did the IMF January 2026 Article IV consultation recommend for Bangladesh's banking sector? Why are these reforms both fiscally important and politically difficult? (12 marks)

Questions for BSS (Economics) Examination

Explain the Doctrine of Mega Project Fiscal Accountability as applied to state-owned bank recapitalization. How should Bangladesh structure the recapitalization process to ensure that taxpayers, rather than politically connected failed borrowers, do not bear all the cost? (12 marks)

What is the significance of Bangladesh Bank's exchange rate reform for the fiscal position? How does a more flexible exchange rate affect both the benefits and costs of fiscal policy management? (12 marks)

Questions for MSS (Economics) Examination

Design a comprehensive banking sector reform and recapitalization strategy for Bangladesh that addresses the NPL crisis, the capital deficit, and the governance failures that produced both. Your strategy should draw on international experience with banking crises (including Korea 1997-98, Malaysia 1997-2000, India 2015-2020, and others) and adapt lessons from those experiences to Bangladesh's specific institutional context. The strategy should include a fiscal costing, a sequencing plan, and an analysis of political economy obstacles. (35 marks)

CHAPTER TWENTY: THE DIGITAL ECONOMY AND THE BUDGET: AI, TECHNOLOGY, AND THE NEW FISCAL FRONTIER

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20.1 A New Definition: Digital Fiscal Infrastructure

The emergence of the digital economy as a significant and growing component of Bangladesh's GDP creates both new fiscal opportunities and new fiscal challenges that the traditional public finance framework is ill-equipped to address. Digital economy activities generate new forms of income and value that require new approaches to taxation; digital government services offer new possibilities for improving the efficiency of public spending and the quality of government-citizen interaction; and digital financial infrastructure creates new channels for social protection delivery and tax compliance that can reduce leakage and improve targeting.

This textbook introduces the concept of Digital Fiscal Infrastructure (DFI): the combination of digital platforms, data systems, connectivity infrastructure, and institutional capabilities needed to modernize the fiscal system's functions of revenue collection, expenditure management, social protection delivery, and fiscal transparency. DFI is distinct from the ICT sector budget (the allocation to technology-sector development) because it focuses on the uses of digital technology within the fiscal system itself rather than on the development of the technology sector as an economic activity.

Bangladesh's DFI has improved significantly over the past decade, particularly through iBAS++, the move toward e-filing for tax, the expansion of mobile financial services that enable direct benefit transfers, and the development of digital identity systems. The FY2025-26 budget's allocation of approximately Tk 30,020 crore (3.8 percent of total budget) to digital infrastructure, AI literacy, 5G rollout, and related activities represents a 15.2 percent increase from the previous year, signaling the interim government's recognition of digital transformation as a strategic priority.

20.2 The ICT Sector: Budget, Growth, and Revenue Potential

Bangladesh's ICT sector has grown rapidly over the past decade, driven by the expansion of the ready-made garment sector's software and business process outsourcing (BPO) requirements, the growth of a domestic startup ecosystem, significant freelancing income from international clients (Bangladesh is among the world's top five freelancing countries by number of freelancers), and government initiatives supporting technology employment and training.

The ICT sector's contribution to formal GDP is underestimated because much freelancing income flows through informal channels not captured in national accounts. However, even official data shows ICT sector growth rates consistently above 15 to 20 percent annually in recent years, making it one of the fastest-growing sectors in the economy. ICT exports, while not accurately measured (many transactions occur through international payment platforms that are not captured in Bangladesh's export statistics), are estimated at USD 1 to 1.5 billion annually and growing.

The budget's support for the ICT sector takes several forms: capital investment in Hi-Tech Parks (28 parks are under various stages of development), training support through LEDP and SEIP (Skills for Employment Investment Program), tax exemptions for software development and IT services, preferential tax treatment for startups, and reduced corporate tax for ICT companies.

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The FY2025-26 budget's reduction of corporate tax for private universities offering technology education from 15 percent to 10 percent is a specific measure aimed at encouraging the expansion of technology-focused higher education.

20.3 Taxing the Digital Economy: A Frontier Fiscal Challenge

The taxation of digital economy activities presents fundamental challenges that traditional tax systems were not designed to address. Standard tax frameworks assume that economic activity occurs in a defined geographic location (which determines which country has the right to tax it), generates profits that can be allocated among the businesses and individuals involved (which determines who bears the tax burden), and is visible to the tax authority (which determines whether the tax can actually be collected).

Digital economy activities violate all three of these assumptions. A Bangladeshi freelancer who provides software development services to a client in Germany through an American platform can generate significant income without any of the traditional signals of economic activity (a physical business premises, a local corporate structure, a traceable payment flow) that tax authorities use to identify and assess taxable income. An international e-commerce platform that sells goods to Bangladeshi consumers may have no physical presence in Bangladesh, making the application of standard VAT rules problematic.

The OECD's Base Erosion and Profit Shifting (BEPS) framework and its Pillar One and Pillar Two proposals, which aim to create a globally coordinated approach to taxing the digital economy, are relevant to Bangladesh's situation but their direct applicability is limited because they were primarily designed to address the taxation of large multinational digital companies rather than the informal freelancing income of individual workers in developing countries. Bangladesh has been developing a withholding tax mechanism for payments to digital service providers operating without physical presence in Bangladesh, but its implementation has been partial and its revenue yield limited.

20.4 Artificial Intelligence: Fiscal Implications and Budget Opportunities

Artificial intelligence is transforming economic activities globally, and its fiscal implications for Bangladesh are multidimensional. On the revenue side, AI-driven economic activities (whether in software development, data analytics, content creation, or AI-enabled services) generate taxable income that the NBR's current systems may not be well-equipped to identify and assess. On the expenditure side, AI tools offer significant potential for improving the efficiency of public spending, through applications in health diagnostics (AI-supported disease detection in settings with limited specialist doctors), education (adaptive learning platforms that personalize instruction), agricultural extension (AI-driven crop disease identification through mobile phone cameras), and tax administration (AI-driven risk profiling of taxpayers for audit selection).

The FY2025-26 budget's allocation for AI literacy programs, the development of 28 hi-tech parks, and the LEDP expansion to 60,000 trainees represent initial steps toward positioning Bangladesh to participate in the global AI economy. However, a deeper and more systematic fiscal strategy for AI is needed, covering investment in foundational AI research, the

development of AI regulation (to manage risks from AI-enabled misinformation, discrimination, and privacy violation alongside the economic benefits), and the specific adaptation of social protection systems to address the potential labor market displacement effects of AI automation in sectors where Bangladesh has significant employment.

20.5 Mobile Financial Services and the Fiscal Transformation

Bangladesh's mobile financial service (MFS) ecosystem, centered on bKash (the largest MFS provider), Nagad, and several others, has transformed the financial lives of millions of previously unbanked Bangladeshis. With over 120 million registered MFS accounts and transaction volumes exceeding USD 100 billion annually, MFS has become the primary financial service for a large proportion of the population, used for wage payments, remittance transfers, utility bill payments, and government-to-person social protection transfers.

The fiscal significance of MFS goes beyond its direct tax revenue (transaction taxes on MFS payments and income taxes on MFS providers). MFS infrastructure enables the government to deliver social protection payments directly to beneficiaries' mobile accounts, reducing the opportunities for intermediary leakage and significantly lowering the transaction costs of cash transfers. During COVID-19, the government used bKash and Nagad to deliver some emergency cash transfers, demonstrating the potential of MFS for social protection delivery.

The challenges of MFS-based social protection delivery include: ensuring that the most vulnerable potential beneficiaries (particularly elderly, disabled, and remote rural populations) have access to and can use MFS accounts; managing the merchant acceptance infrastructure needed for beneficiaries to convert MFS balances into food and goods (not all rural areas have sufficient MFS agents); and protecting beneficiaries from predatory practices including agent fraud and unauthorized deductions.

20.6 Exam Questions: Chapter Twenty

Questions for BEcon Examination

Define Digital Fiscal Infrastructure and distinguish it from the ICT sector budget. Why is DFI important for improving the quality of Bangladesh's fiscal management? (12 marks)

What are the three principal challenges that the digital economy poses for traditional tax systems? How is Bangladesh addressing each of these challenges in its current tax framework? (15 marks)

What fiscal opportunities does artificial intelligence offer for improving public spending efficiency in Bangladesh? Identify three specific applications and assess their feasibility in the current institutional context. (12 marks)

Questions for BSS (Economics) Examination

Explain the OECD BEPS Pillar One and Pillar Two proposals. How relevant are they to Bangladesh's digital economy tax challenge? What alternative approaches might be more practical for Bangladesh's specific context? (15 marks)

Describe the role of mobile financial services in Bangladesh's social protection delivery system. What are the remaining gaps in MFS-based delivery and how can they be addressed? (12 marks)

Questions for MSS (Economics) Examination

Design a comprehensive Digital Fiscal Infrastructure strategy for Bangladesh covering revenue collection modernization (e-filing, digital audit, cross-border digital tax), expenditure management (AI-enhanced monitoring, real-time performance tracking), social protection delivery (MFS integration, digital registry), and fiscal transparency (real-time fiscal reporting, open data). For each component, specify the investment required, the institutional changes needed, and the expected improvement in fiscal outcomes. (35 marks)

Apply the theory of two-sided markets (Rochet and Tirole) and platform economics to analyze the regulation and taxation of digital platforms operating in Bangladesh. What regulatory and fiscal framework would best balance the benefits of platform-enabled economic activity with the public interest in fair taxation and consumer protection? (25 marks)

PART THREE: CONCLUDING SYNTHESIS

The eight sector chapters of Part Three have illuminated a consistent pattern that runs across Bangladesh's entire public expenditure system: the persistent gap between stated fiscal commitment and actual fiscal reality, and the institutional, political, and informational dynamics that perpetuate that gap.

Education is chronically underfunded in its most productive uses while absorbing significant resources in its least productive ones. Health spending, minimal as it is, does not reach those who most need it. Social protection benefits are too small to provide genuine protection. Agricultural research and extension are the highest-return investments in the sector's budget and among the most consistently underfunded. Energy subsidies absorb fiscal resources that could be more productively deployed while creating perverse incentives and market distortions. Infrastructure investment is fragmented, weakly sequenced, and subject to governance failures that reduce its economic return. The banking sector's fiscal costs are accumulated through politically directed decisions but socialized onto the public budget. And the digital economy, the most rapidly growing part of Bangladesh's economic landscape, is inadequately integrated into either the tax system or the public spending framework.

These are not random or independent failures. They reflect shared structural features of Bangladesh's fiscal system: the dominance of short-term political incentives over long-term developmental rationality; the weakness of institutions capable of holding fiscal decision-makers accountable for outcomes rather than inputs; the inadequacy of evaluation systems that could

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generate evidence on what spending produces; and the absence of powerful citizen constituencies for evidence-based, outcome-oriented public spending.

The path forward requires not merely more resources but a transformation of how resources are used. Sectoral Fiscal Metabolism must be improved in every sector analyzed in this part. That improvement requires the kind of deep institutional reform that is both the most important and the most difficult objective in public finance. It is, ultimately, the work of decades rather than budget cycles, and it is the work that determines whether Bangladesh's considerable developmental achievements of the past five decades can be sustained and deepened in the decades to come.

PART FOUR: REVENUE ARCHITECTURE, FISCAL GOVERNANCE, TAX JUSTICE, PHILOSOPHICAL FOUNDATIONS, AND THE POLITICAL ECONOMY OF ACCOUNTABILITY

Preface to Part Four

Three parts of this textbook have carried the reader from the philosophical foundations of budgeting through the methodological architecture of fiscal planning and into the granular sectoral terrain of Bangladesh's public expenditure. If Part One was the map, Part Two the compass, and Part Three the landscape, then Part Four is the investigation. It asks harder questions and follows them deeper.

What does justice actually mean in the language of taxation? What happens when the fiscal state fails, not at the margins but catastrophically, and how should such failure be investigated, understood, and corrected? How does public discourse, carried by newspapers, think tanks, social media, and civil society, shape the political economy of budgeting in ways that no formal institutional analysis can fully capture? What does modern fiscal philosophy look like when it refuses the inheritance of colonial administrative thought and builds something genuinely new from the ground up? And what, finally, does a responsible, honest, and achievable budget for the 2026-27 fiscal year look like, given everything this textbook has established about where Bangladesh stands?

Part Four offers no reassuring fictions. Bangladesh's revenue architecture is structurally broken in ways that cannot be fixed by tinkering with tax rates. The fiscal governance system contains accountability vacuums that have been exploited by powerful actors with consequences still reverberating through the banking sector, the development program, and the balance of payments. The public health financing system is chronically inadequate to the country's epidemiological profile. The legislature's oversight role is nominal rather than substantive. And yet, within all of this, there are genuine pathways forward, and the closing chapter of this part maps them with precision.

New definitions, principles, doctrines, and philosophies are introduced throughout. They are offered not as corrections to a field that has gone wrong but as contributions to a living discourse

that grows richer each year. The reader is invited to engage them critically, apply them empirically, and, where they fall short, improve upon them.

CHAPTER TWENTY-ONE: REVENUE ARCHITECTURE, TAX JUSTICE, AND THE STRUCTURAL REFORM OF BANGLADESH'S FISCAL METABOLISM

21.1 Revenue Architecture: A New Definition

Revenue architecture is the totality of structural relationships, institutional actors, legal instruments, behavioral norms, and information systems through which a state transforms the economic activity of its population and enterprises into public resources, including not only what is collected but the mechanisms of collection, the distributional pattern of fiscal burden, the incentive effects created by the tax system on production and investment, and the dynamic relationship between the size of the revenue base and the capacity of the state to invest in the conditions that expand that base over time.

This definition is deliberately broader than the conventional understanding of a tax system, which typically describes rates, bases, exemptions, and administrative processes. Revenue architecture encompasses all of these but additionally captures the feedback loop between fiscal capacity and economic development, the political economy of who bears the burden and who avoids it, and the information ecology that determines whether the state knows what it could collect and whether citizens know what they owe and why.

For Bangladesh, the revenue architecture is the single most important structural deficiency in the fiscal system. No other aspect of public finance generates as much commentary from international financial institutions, domestic researchers, and policy advocates. The IMF's January 2026 Article IV assessment identified persistently low fiscal revenues as one of the three defining macroeconomic challenges facing Bangladesh. The IMF's October 2025 TADAT assessment found that Bangladesh received 22 "D" (weak) ratings out of 32 critical indicators for tax administration, with results worse than in 2017. This is not merely a matter of administrative efficiency; it is a deep structural problem with roots in the political economy of tax compliance, the composition of the economy, and the legal architecture of the tax system itself.

21.2 The Tax-to-GDP Problem: A Deep Structural Investigation

Bangladesh's tax-to-GDP ratio in FY2025 fell to 6.9 percent, down from 7.4 percent in FY2024, representing a deterioration even from an already inadequate baseline. The NBR recorded a deficit of nearly Tk 100,000 crore in revenue collection in the first nine months of FY2025-26, the highest revenue shortfall in Bangladesh's recorded fiscal history. For context, the regional median tax-to-GDP ratio in South Asia is above 10 percent; the median for lower-middle income countries globally is approximately 15 percent; and countries like Vietnam, which was at Bangladesh's income level a decade ago, had a tax-to-GDP ratio above 20 percent even then.

The causes of Bangladesh's persistently low tax-to-GDP ratio are multiple, reinforcing, and structurally embedded.

The first cause is the composition of the economy. Bangladesh's economy features a very large informal sector, estimated by various researchers to account for between 35 and 50 percent of GDP, operating outside the formal business registration, accounting, and compliance systems that make taxation administratively tractable. Street traders, small agriculture producers, household-level service providers, and the vast majority of construction subcontractors operate in this informal space. They do generate economic value that is counted (imperfectly) in GDP estimates but are effectively beyond the reach of a tax system that depends on formal business registration, invoicing, and documented transactions.

The second cause is the structural design of tax exemptions and holidays. Bangladesh has historically used tax exemptions, tax holidays, and reduced rates as instruments of industrial policy, attracting investment by reducing the post-tax cost of capital in priority sectors. The EPZ (Export Processing Zone) and SEZ (Special Economic Zone) regimes provide significant tax concessions. Export-oriented industries receive special treatment. Key agricultural income is exempt. The cumulative cost of these exemptions, often described as "tax expenditures," represents a significant erosion of the potential revenue base. The IMF has estimated that Bangladesh's tax expenditures may be equivalent to 2-3 percentage points of GDP annually, meaning that the potential tax base, if all exemptions were rationalized, could support a tax-to-GDP ratio several points higher than current collection.

The third cause is compliance failure within the formal sector. Among registered taxpayers, compliance rates are poor. As of 2025, Bangladesh has approximately 10 million registered taxpayers with Tax Identification Numbers (TINs), of whom only 30 to 35 percent are actively compliant and filing returns. The VAT system, despite the introduction of electronic invoicing in some segments, is characterized by widespread evasion through under-invoicing, unregistered transactions, and collusion between businesses and low-level tax officials. Corporate income tax compliance is undermined by transfer pricing manipulation, profit shifting to lower-tax jurisdictions, and the use of multiple entities to misallocate income.

The fourth cause is the administrative capacity deficit. The IMF-World Bank TADAT assessment of October 2025 found tax administration to be weaker than in 2017 despite years of reform effort. This finding, which surprised many observers, reflects several interconnected failures: high staff turnover in the NBR, limited automation of compliance processes, insufficient investment in data analytics that would enable risk-based audit selection, inadequate training in modern audit techniques, and a corruption problem within the revenue administration itself that creates systematic opportunities for under-payment in exchange for unofficial payments to officials.

A new term introduced here is Revenue Architecture Fragmentation: the condition in which a state's revenue-gathering apparatus is divided across multiple overlapping institutional mandates, legal frameworks, and information systems that cannot communicate effectively with each other, creating systematic gaps and inconsistencies in revenue assessment, collection, and enforcement. Bangladesh's revenue architecture is highly fragmented: customs duties fall under one

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directorate, VAT under another, income tax under a third, local government taxes under district administration, and various sector-specific levies under their respective regulatory agencies. These silos do not share taxpayer information effectively, enabling systematic evasion through structural invisibility.

21.3 Tax Justice: International Theory and Bangladesh's Structural Inequity

Tax justice is a framework for evaluating fiscal systems not merely by their revenue-raising efficiency but by their contribution to or derogation from principles of fairness, including horizontal equity (people in similar economic circumstances should bear similar tax burdens), vertical equity (people with greater ability to pay should bear a larger share of the burden), and global equity (the international tax system should not systematically drain resources from developing economies to wealthy ones).

The tax justice literature, energized by scholars including Gabriel Zucman, Thomas Piketty, Joseph Stiglitz, and the Tax Justice Network's research team, has documented that the global tax system is structured in ways that systematically disadvantage developing economies. Three mechanisms are central to this argument.

First, corporate profit shifting: multinational corporations use transfer pricing, thin capitalization, and the strategic placement of intellectual property in low-tax jurisdictions to shift taxable profits away from the countries where real economic activity occurs. Bangladesh is a site of significant economic activity for multinational enterprises in garments, telecommunications, pharmaceuticals, and fast-moving consumer goods. The extent to which taxable profits from this activity are shifted to lower-tax jurisdictions is difficult to quantify precisely but is structurally enabled by Bangladesh's limited capacity for transfer pricing audits and international tax information exchange.

Second, illicit financial flows: money generated through corruption, tax evasion, and criminal activity leaves Bangladesh through formal financial channels, informal hawala networks, and trade misinvoicing. Global Financial Integrity, an NGO that tracks illicit financial flows, has estimated that Bangladesh may lose billions of dollars annually to outflows of this type. The fiscal consequence is direct: resources that could be taxed and invested in public services instead accumulate in offshore financial centers.

Third, treaty shopping and the double taxation agreement network: Bangladesh's network of double taxation avoidance agreements, designed to prevent the same income being taxed twice in different jurisdictions, creates opportunities for investors to route capital through treaty partners to minimize withholding taxes on dividends, interest, and royalties paid to foreign investors. The rationalization of these treaties to prevent abuse while maintaining genuinely beneficial provisions for investment promotion is an ongoing challenge.

Within the domestic fiscal system, Bangladesh's tax structure exhibits systematic regressive features. VAT, which contributes the largest share of NBR revenue, applies at a standard rate across most goods and services regardless of the income of the purchaser. Low-income households, which spend a higher proportion of their income on consumption, bear a higher

VAT burden as a percentage of income than high-income households, which save a larger share. The standard VAT rate applied to necessities like cooking oil, clothing, and household goods is a de facto tax on poverty.

The progressive elements of the income tax structure, with rates rising from zero for incomes below Tk 350,000 to 25 percent on the highest incomes, are significantly eroded in practice by the low compliance rate and the many avoidance mechanisms available to higher-income individuals. A salaried employee in the formal sector who cannot hide income has the full progressive rate schedule applied. A self-employed professional, a business owner operating through an informal enterprise, or a wealthy individual with income from property rents often pays far less in effective terms. This creates an inverted compliance pattern in which formal-sector wage earners, who are middle income rather than wealthy, bear a larger share of the income tax burden than their high-income counterparts who operate outside the formal compliance system.

A new principle introduced here is the Principle of Structural Fiscal Progressivity: the proposition that a just revenue architecture must be progressive not merely in its statutory rate schedule but in its structural design, such that its effective incidence (the actual distribution of fiscal burden across income groups after accounting for all exemptions, avoidance mechanisms, and compliance patterns) places a higher share of total fiscal burden on higher-income groups than on lower-income groups. Bangladesh's revenue architecture fails this test in its current form.

21.4 The Informal Economy and Revenue Capture

The informal economy in Bangladesh is not a marginal phenomenon; it is a central feature of economic organization that employs the majority of the workforce and generates a substantial share of national income. Understanding it is essential for revenue architecture reform, because strategies that work in formal-economy contexts fail when applied mechanically to an economy where most transactions leave no paper trail.

Three distinct segments of the informal economy require different revenue strategies. The first segment is the small trader and micro-enterprise sector: tea stalls, roadside vendors, rickshaw operators, petty traders, domestic workers, and similar micro-businesses. These entities operate below any plausible level of formal business registration and tax compliance, and attempting to bring them into the standard income tax or VAT system would impose administrative costs far exceeding any revenue generated. The appropriate revenue strategy for this segment is not direct taxation but presumptive taxation linked to visible proxies (shop location, business type, estimated turnover), which several countries have used successfully to capture some revenue from the micro-enterprise sector without overwhelming them with compliance burdens.

The second segment is the medium informal enterprise: businesses of meaningful scale that operate outside the formal system not because they are truly micro but because formalization exposes them to tax liability they wish to avoid. These businesses may have 5 to 50 employees, maintain informal accounts, and generate annual revenues of several million taka. They are capable of paying taxes but have chosen informality as a tax avoidance strategy. Bringing this segment into the formal system requires a combination of enforcement pressure, simplified

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compliance pathways, and the provision of tangible benefits from formalization such as access to formal credit, government contracts, and certification that signals quality to buyers.

The third segment is the deliberately concealed formal enterprise: businesses that maintain a formal registration and file returns but systematically under-report income and transactions. A garment subcontractor that issues invoices for 60 percent of actual sales, a construction company that maintains two sets of accounts, or a professional who declares Tk 600,000 in annual income while actually earning Tk 3 million. This segment is where rigorous audit capacity, information matching, and risk-based compliance management are most needed and most likely to produce revenue gains.

The revenue implications of informality extend beyond direct tax evasion to the VAT system. Bangladesh's VAT collection relies on a chain of invoicing: businesses collect VAT from customers and remit it to the government, claiming credit for VAT paid on their own inputs. The chain breaks wherever an informal transaction occurs without proper invoicing, because the downstream business then cannot demonstrate its input VAT credit and the upstream supplier has not remitted the output VAT. Electronic invoicing, mandatory in principle but still limited in practice, is the technically correct solution, but it requires both the technical infrastructure and the compliance culture to function.

21.5 Corporate Tax Avoidance: Transfer Pricing, Base Erosion, and the Fiscal Sovereignty of Developing Economies

Transfer pricing manipulation is the practice by which a multinational corporation sets the prices of transactions between its subsidiaries in different countries at levels that are not arm's length, that is, not what unrelated parties would negotiate, in order to shift profits from high-tax to low-tax jurisdictions. A garment retailer in Europe buys from its Bangladesh sourcing subsidiary at a price that allocates most of the value chain margin to the European entity, where it faces a favorable holding company tax regime, while the Bangladesh subsidiary, where the actual manufacturing occurs, appears to make minimal profit subject to Bangladesh corporate tax. This is legal in its most refined form because it exploits the ambiguity in what an "arm's length" price should be, but it systematically reduces the fiscal return to the economy where production actually happens.

Bangladesh's capacity for transfer pricing enforcement is very limited. The Transfer Pricing Cell established within the NBR has a small staff, limited access to international pricing databases used by sophisticated tax authorities in wealthier countries, and no systematic exchange of information with foreign tax administrations that would allow verification of whether related-party transaction prices are consistent across jurisdictions. The IMF has repeatedly recommended strengthening transfer pricing enforcement as a revenue priority, and the Medium and Long Term Revenue Strategy (MLTRS) that aims to raise Bangladesh's tax-to-GDP ratio to 10.5 percent by FY2035 includes transfer pricing reform as a component.

The OECD's Base Erosion and Profit Shifting (BEPS) initiative, which has produced a framework of international tax rules now adopted by over 140 countries, offers Bangladesh a set of tools for defending its revenue base against profit shifting. Bangladesh's engagement with the

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BEPS framework has been limited but is expanding through the IMF's Joint Domestic Resource Mobilization Initiative, which includes technical assistance on transfer pricing, country-by-country reporting, and the implementation of the global minimum corporate tax of 15 percent agreed under BEPS Pillar Two.

A new doctrine introduced here is the Doctrine of Developmental Revenue Sovereignty: the principle that developing economies have a special claim to prioritize the integrity of their domestic revenue base against international tax avoidance practices, and that international tax cooperation frameworks must be designed with the institutional realities of low-capacity tax administrations in mind, providing simplified compliance options and proportionate enforcement tools rather than expecting developing countries to implement compliance mechanisms designed for the revenue administrations of wealthy economies.

21.6 Wealth Tax, Property Tax, and Capital Gains Taxation: The Untapped Fiscal Frontier

Bangladesh's fiscal system has historically taxed income (imperfectly), consumption (through VAT), and trade (through customs), but has systematically undertaxed wealth accumulation, property ownership, and capital gains. This pattern has both revenue and distributional consequences: it generates inadequate revenue from the rapidly growing segment of the population that has accumulated substantial assets through the economic growth of recent decades, and it allows the concentration of wealth to proceed with minimal fiscal friction.

Property taxation in Bangladesh is a fragmented and administratively weak system, with revenue accruing primarily to city corporations and poushavas (municipalities) on the basis of annual rental values that are systematically below market rates, assessed infrequently, and collected with limited enforcement capability. The result is that property owners in Dhaka, Chattogram, and other cities, whose assets have appreciated dramatically in real terms over the past two decades, pay property taxes that represent a tiny fraction of their assets' value or rental potential. A new land valuation system, based on market transaction prices rather than official assessed values that bear little relationship to reality, would dramatically expand the property tax base.

Capital gains taxation in Bangladesh applies at varying rates to different asset classes but is substantially avoided through two mechanisms: the informal real estate market, in which a significant proportion of property transactions are documented at prices far below actual consideration (a practice known as "khatian mismatch" or undervaluation of deeds), and the limited enforcement of capital gains tax on financial assets held outside the formal trading system. The Bangladesh Securities and Exchange Commission has made some progress in improving transparency in listed securities, but capital gains from the large volume of private equity and unlisted company transactions largely escape the system.

A wealth tax, applying an annual levy on the net wealth of individuals above a threshold, has been proposed by researchers and civil society organizations in Bangladesh as a mechanism to raise revenue from accumulated assets while providing a more progressive fiscal structure. The Wealth Surcharge that Bangladesh currently levies as an addition to income tax liability for high-net-worth individuals is an approximation of a wealth tax but applies only to those who file

returns and declare their assets honestly, significantly limiting its coverage of actual wealth at the top of the distribution.

21.7 New Revenue Frontiers: Carbon Tax, Financial Transaction Tax, and the Land Value Capture Mechanism

Three revenue instruments that are increasingly discussed in international fiscal policy circles but largely absent from Bangladesh's revenue architecture deserve serious examination.

A carbon tax, levied on the carbon content of fuel combustion, serves two simultaneous purposes: it raises revenue and it internalizes the externality cost of greenhouse gas emissions, creating an incentive for firms and consumers to shift toward lower-carbon technologies and behaviors. At a carbon price of USD 50 per ton of CO2 equivalent, the IMF estimates that Bangladesh could raise revenue equivalent to several percentage points of GDP while simultaneously supporting the country's commitments under the Paris Agreement and creating incentives for the rapid deployment of renewable energy that would reduce the economy's exposure to global fossil fuel price volatility. The FY2025-26 budget did not include a carbon tax, but the IMF's structural benchmarks for Bangladesh include the introduction of excise taxes on imported motive fuels at the equivalent of USD 50 per ton of greenhouse gas emissions, a step in this direction.

A financial transaction tax, applying a very small levy (of the order of 0.01 to 0.1 percent) to securities transactions in Bangladesh's capital markets, would raise modest revenue from a sector that currently escapes most direct taxation. Proponents argue that such a tax would also reduce speculative short-term trading that contributes to volatility in Bangladesh's stock market, though economists debate whether transaction taxes actually achieve this stabilization effect.

Land value capture mechanisms enable the state to recover a portion of the increase in land value created by public infrastructure investment. When the government builds a metro rail line through Dhaka, land values along the corridor increase dramatically, generating windfall gains for landowners that reflect not the owners' investment but public expenditure. Systems of development charges, tax increment financing, or betterment levies can recover a portion of these gains for the state, reducing the net fiscal cost of infrastructure investment. Bangladesh's current fiscal system has no systematic land value capture mechanism, representing a significant missed fiscal opportunity from the large infrastructure program of recent decades.

21.8 Exam Questions: Chapter Twenty-One

Questions for BEcon Examination

Explain the concept of Revenue Architecture Fragmentation. Using three specific examples from Bangladesh's tax administration, demonstrate how fragmentation enables systematic evasion and reduces revenue performance. What institutional reforms would reduce fragmentation? (20 marks)

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Define the Principle of Structural Fiscal Progressivity. Is Bangladesh's current tax structure progressive by this principle? Support your answer with data on the share of VAT, income tax, and customs duty in total NBR revenue and the distributional implications of each. (15 marks)

What is the Doctrine of Developmental Revenue Sovereignty? How does Bangladesh's limited capacity for transfer pricing enforcement represent a violation of its developmental revenue sovereignty, and what reforms are needed? (15 marks)

Explain the concept of a land value capture mechanism. How could Bangladesh apply such a mechanism to recover fiscal value from its metro rail investments in Dhaka? (10 marks)

Questions for BSS (Economics) Examination

Bangladesh's tax-to-GDP ratio fell to 6.9 percent in FY2025, the lowest in recent memory. Identify the four main structural causes of this decline and evaluate which is the most important. (15 marks)

Explain how transfer pricing manipulation reduces Bangladesh's corporate tax revenue. What tools does the OECD BEPS framework offer Bangladesh to defend its revenue base, and how feasible is their implementation given Bangladesh's tax administration capacity? (12 marks)

Distinguish between the three segments of Bangladesh's informal economy (micro enterprises, medium informal enterprises, deliberately concealed formal enterprises) and explain why different revenue strategies are needed for each. (10 marks)

What are the tax justice objections to Bangladesh's current VAT-heavy revenue structure? Propose two reforms that would make the tax system more consistent with the Principle of Structural Fiscal Progressivity without sacrificing overall revenue adequacy. (12 marks)

Questions for MSS (Economics) Examination

"Bangladesh's revenue architecture is structurally designed to protect accumulated wealth and shift fiscal burden toward wage earners and consumers." Critically evaluate this statement using data from the FY2025-26 budget and drawing on the tax justice literature of Piketty, Zucman, and the Tax Justice Network. (30 marks)

Apply the Doctrine of Developmental Revenue Sovereignty to a critical analysis of Bangladesh's engagement with international tax frameworks including the OECD BEPS initiative, double taxation agreements, and the IMF's Joint Domestic Resource Mobilization Initiative. Does Bangladesh's engagement with these frameworks enhance or compromise its developmental revenue sovereignty? (25 marks)

Design a comprehensive revenue architecture reform program for Bangladesh that would raise the tax-to-GDP ratio from its current level of approximately 7 percent to the MLTRS target of 10.5 percent by FY2035. Specify the policy instruments, institutional changes, and sequencing of reforms, and estimate the revenue impact of each major component. (30 marks)

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CHAPTER TWENTY-TWO: PHILOSOPHY OF FISCAL POLICY IN POST-COLONIAL ECONOMIES: NEW DOCTRINES AND PRINCIPLES

22.1 The Post-Colonial Fiscal State: Structural Legacies and Conceptual Inheritance

The fiscal systems of post-colonial states are not simply underdeveloped versions of the fiscal systems of wealthy economies, waiting to mature into similar forms given time and growth. They are distinct institutional formations shaped by specific historical experiences, carrying particular structural legacies that interact with contemporary economic pressures in ways that standard fiscal theory does not adequately theorize.

Bangladesh's fiscal system bears four major colonial legacies that continue to shape its architecture.

The first is the extractive revenue design. British colonial tax administration in Bengal was designed not to fund public services for the local population but to extract surplus for transfer to the metropolitan economy. The land revenue system, the salt tax, the opium monopoly, and the customs system were configured around extraction rather than investment. The administrative culture of the revenue bureaucracy, shaped over 200 years of extractive practice, carries residual attitudes toward taxpayers as sources to be drawn upon rather than citizens to be served. The transformation of this culture, from extraction to social contract, is an ongoing project that is still incomplete.

The second legacy is the dual budget structure. The separation of revenue budget (recurrent expenditure) and development budget (capital expenditure), which in Bangladesh is institutionalized in the separation between the Finance Division's management of the revenue budget and the Planning Commission's management of the ADP, reflects the colonial distinction between "ordinary" and "extraordinary" expenditure. This separation creates coordination problems, accounting ambiguities, and incentive distortions that Bangladesh has been trying to eliminate through budget integration reforms for over two decades without fully succeeding.

The third legacy is the aid-dependency architecture. Bangladesh's development budget was, for the first several decades of independence, overwhelmingly financed by foreign aid, reflecting the colonial economy's failure to generate domestic capital accumulation adequate to finance public investment. The institutions, norms, and processes of development budgeting were shaped by donor preferences, project identification systems, and monitoring requirements that reflected the priorities of aid agencies as much as the Bangladesh state's own developmental vision. The gradual reduction of aid dependence is a genuine achievement, but the institutional architecture built around aid management is slow to adapt.

The fourth legacy is epistemic: the conceptual frameworks used to analyze and design fiscal policy in Bangladesh are largely inherited from Western economics, institutionalized through the education of Bangladeshi economists at Western universities and the technical assistance of institutions like the IMF and World Bank that carry the intellectual frameworks of their

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predominantly Western economics staff. This creates a systematic bias toward analytical frameworks that fit the institutional realities of wealthy economies and require substantial modification, sometimes transformation, to yield useful insights in Bangladesh's context.

22.2 A New Philosophy: Sovereign Developmental Fiscalism

Sovereign Developmental Fiscalism is the philosophical framework holding that fiscal policy in a developing post-colonial economy must simultaneously serve three purposes that exist in creative tension with each other: fiscal sovereignty (the assertion and maintenance of the state's right to design its fiscal system according to domestic priorities without external dictation), developmental transformation (the use of fiscal instruments to actively reshape the structure of the economy toward higher-value activities, greater equity, and stronger institutional foundations), and social contract fulfillment (the delivery of public goods and services at standards that sustain the legitimacy of the state's claim on taxation and the population's acceptance of fiscal obligation).

Sovereign Developmental Fiscalism differs from standard fiscal theory in three important ways. It is explicitly political, recognizing that fiscal policy is not a technocratic exercise but a set of choices with distributive consequences that are contested by social actors with different interests. It is explicitly historical, insisting that the current fiscal situation cannot be understood or reformed without understanding the institutional legacies through which it was shaped. And it is explicitly relational, recognizing that a state's fiscal capacity is not just a function of its own institutional quality but of its position within international economic and financial systems that constrain its choices in ways that require explicit theorization.

Applied to Bangladesh, Sovereign Developmental Fiscalism suggests that the appropriate standard for evaluating the budget is not merely whether it meets IMF conditionality benchmarks or achieves particular debt-to-GDP ratios, but whether it advances the agenda of economic transformation, institutional development, and social contract fulfillment that Bangladesh's developmental trajectory requires. Sometimes these goals align with conventional fiscal prudence. Sometimes they require creative departures from the fiscal orthodoxy promoted by international financial institutions.

22.3 The Rawlsian Budget in Practice: Applying the Difference Principle to Bangladesh

John Rawls's difference principle, introduced in Part One of this textbook, holds that social and economic inequalities are just only if they benefit the least advantaged members of society. Applied to the budget, this means that the allocation of public resources should be evaluated primarily by its impact on the welfare of the worst-off: the rural poor, the landless agricultural laborer, the urban slum dweller, the woman in Sylhet without access to prenatal care, the child in Rangpur who attends a school with no qualified teacher.

A Rawlsian budget analysis of Bangladesh's FY2025-26 allocation reveals a mixed picture. On the positive side, the budget maintains and modestly expands social protection programs targeted at the elderly, widows, and people with disabilities; it preserves subsidies on essential goods that protect the purchasing power of low-income households; and it allocates resources to rural

infrastructure including roads, bridges, and sanitation that improve living conditions for the rural poor.

On the negative side, a Rawlsian analysis finds the following deficiencies. The public health budget, at 0.85 percent of GDP, is inadequate to prevent the catastrophic out-of-pocket health expenditure that pushes hundreds of thousands of Bangladeshi households below the poverty line each year. The education budget, at 1.72 percent of GDP, is far below the levels needed to deliver quality education to all children, and within the education budget, higher education at public universities that predominantly serve urban middle-class students receives a disproportionate share relative to primary and secondary education that reaches the most disadvantaged. Social protection transfers are so small in absolute value (the Old Age Allowance of Tk 600 per month covers less than 10 percent of the cost of a minimally adequate diet in 2025) that they represent tokenism rather than genuine security.

The Rawlsian verdict on Bangladesh's budget is that it performs the language of developmental equity without delivering the substance. The difference principle, rigorously applied, would require a substantial reallocation of fiscal resources toward the programs most directly and effectively reaching the least advantaged, financed by a more progressive revenue architecture that raises greater resources from those with the greatest ability to contribute.

22.4 Amartya Sen's Capability Approach and Budget Design: A New Framework

Amartya Sen's capability approach, developed across his career and most fully articulated in "Development as Freedom" (1999), holds that the goal of development is not the accumulation of GDP or even the satisfaction of preferences but the expansion of real freedoms, the capabilities people have to live lives of dignity, health, knowledge, political participation, and meaningful relationships. Applied to budget design, this approach asks not "how much was spent?" but "what were people enabled to do as a result?"

A capability-centered budget evaluation of Bangladesh requires data on capability outcomes, not just spending inputs. For health, the question is not whether health spending increased but whether maternal mortality rates are falling, whether undernutrition among children under five is declining, and whether people in the bottom income quintile have genuine access to effective medical care when they need it. For education, the question is not whether enrollment rates are high but whether children are actually learning and whether completed schooling translates into meaningful capability for civic participation and economic activity. For social protection, the question is not how many programs exist but whether the most vulnerable people are genuinely covered and whether transfer amounts are large enough to make a real difference to their choices.

A new principle emerging from this framework is the Principle of Capability Returns Assessment: the requirement that budget allocations in social sectors be evaluated against measurable capability outcomes rather than input and output metrics alone, and that the budget process include systematic assessment of the capability returns to alternative spending configurations. This principle, if institutionalized in Bangladesh's MTBF, would transform the budget from a document that describes spending intentions into one that is accountable for actual changes in human welfare.

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22.5 The Philosophy of Austerity: International Debate and Bangladesh's Experience

Austerity, as a fiscal philosophy, holds that periods of excessive public spending should be corrected by reductions in government expenditure and/or increases in taxation, restoring fiscal balance and creating conditions for sustainable private sector-led growth. The austerity debate has been one of the most contentious in economics since the 2008 global financial crisis, with economists like Paul Krugman, Joseph Stiglitz, and Mark Blyth on one side arguing that austerity in demand-deficient economies is self-defeating, producing lower growth that worsens the fiscal position it was meant to improve, and economists associated with the IMF's traditional frameworks (though the IMF itself has significantly revised its positions since 2016) on the other arguing that fiscal consolidation restores credibility and creates space for private investment.

Bangladesh's FY2025-26 budget, the first budget of the interim government, is effectively an austerity budget: total spending is reduced, the ADP is cut by Tk 35,000 crore, and the deficit target is lowered from 4.6 percent to 3.6 percent of GDP. This fiscal tightening occurs in a context of GDP growth that has slowed to 3.7 percent in FY2025 (down from 5.8 percent in FY2023), inflation still at 8.9 percent in FY2026, and a banking sector in crisis.

The philosophical and empirical question is whether this austerity is appropriate. The case for consolidation includes: the need to demonstrate fiscal credibility to retain IMF support and maintain access to multilateral financing; the genuine unsustainability of the debt service trajectory if borrowing continued at previous rates; and the importance of reducing monetary financing of the deficit that contributed to inflationary pressure.

The case against pure austerity includes: the risk of fiscal contraction compounding the growth slowdown, reducing tax revenues further and making the deficit harder rather than easier to close; the social cost of reduced development spending in health, education, and social protection precisely when the population most needs public support; and the historical evidence from developing economies that capital expenditure cuts are typically the path of least political resistance but impose the largest long-term developmental costs.

A balanced philosophical assessment suggests that Bangladesh's FY2025-26 fiscal consolidation is necessary but insufficient. It is necessary because the previous trajectory was genuinely unsustainable. It is insufficient because consolidation through expenditure cuts, without parallel revenue architecture reform, simply constrains the developmental capacity of the state without addressing the structural fiscal weakness that created the problem. The philosophy that should guide the path forward is not austerity or expansionism but what this textbook terms Transformative Fiscal Consolidation: a strategy that reduces the deficit primarily through revenue enhancement rather than expenditure reduction, protecting social and developmental spending while requiring higher contributions from those with the greatest capacity to contribute.

22.6 Decolonizing Budget Theory: New Frameworks from the Global South

The dominant frameworks of public finance, from Musgrave's three functions of the fiscal state (allocation, distribution, stabilization) to optimal tax theory to the IMF's debt sustainability analysis methodology, were developed primarily by economists working in the intellectual

traditions of Western economics and the institutional frameworks of advanced capitalist economies. Their application to developing post-colonial economies requires not merely modification at the margins but fundamental reconsideration of several core assumptions.

The allocation function assumes that markets are the default mechanism for resource allocation and that government intervention is justified by market failure. But in many developing economies, including Bangladesh, the relevant question is not whether to intervene in markets but which institutional forms of economic organization, combining market, state, and community mechanisms, most effectively advance developmental goals. The binary market-failure framework is too thin to capture the institutional complexity of developing economies.

The stabilization function assumes that fiscal policy's role in stabilization is to smooth business cycles around a long-run growth trend. But for an economy like Bangladesh that is simultaneously managing short-run macroeconomic instability (inflation, exchange rate pressure, banking sector crisis) and long-run structural transformation (industrialization, urbanization, demographic change), the stabilization and transformation functions are inseparable. A budget that achieves short-run stabilization at the cost of long-run structural investment is not economically rational even by its own stabilization logic.

The distribution function is typically addressed through tax progressivity and social transfers. But in economies where the primary determinants of income distribution are land ownership patterns, access to formal education and credit, and gender, ethnic, and regional discrimination that are embedded in social structures rather than expressed purely through market mechanisms, fiscal redistribution through taxes and transfers is a partial solution to a problem that requires structural institutional change. The budget can contribute to redistribution but cannot substitute for land reform, legal reform, and the transformation of discriminatory social norms.

A new philosophical framework introduced here is Institutional Fiscal Structuralism: the doctrine that fiscal policy in developing economies must be explicitly designed to address structural institutional deficiencies, including the concentration of economic power, the exclusion of marginalized groups from formal economic participation, and the weakness of public institutions that provide the foundations for market development, rather than assuming these structures as given and attempting to optimize within them.

22.7 Exam Questions: Chapter Twenty-Two

Questions for BEcon Examination

Identify the four main colonial fiscal legacies that continue to shape Bangladesh's budget system. For each legacy, describe its historical origin and one specific contemporary manifestation in Bangladesh's fiscal system. (20 marks)

Explain the philosophy of Sovereign Developmental Fiscalism. How does it differ from standard fiscal theory? Apply it to evaluate one specific aspect of Bangladesh's FY2025-26 budget. (15 marks)

What is the Rawlsian difference principle, and how does it evaluate Bangladesh's social protection budget in FY2025-26? What specific reforms would a Rawlsian fiscal philosopher recommend? (15 marks)

Define Transformative Fiscal Consolidation and explain why it is preferable to standard austerity as a framework for Bangladesh's fiscal adjustment. (10 marks)

Questions for BSS (Economics) Examination

Apply the Principle of Capability Returns Assessment to Bangladesh's education budget. What capability outcome data would be needed to implement this principle, and what specific changes to the budget process would its institutionalization require? (15 marks)

"The austerity in Bangladesh's FY2025-26 budget is necessary but insufficient." Do you agree? Construct a balanced argument addressing both the case for consolidation and the risks of excessive expenditure restraint. (12 marks)

Explain the doctrine of Institutional Fiscal Structuralism. How does it differ from the standard allocation, distribution, and stabilization framework of public finance? Is it more relevant for Bangladesh than the standard framework? (12 marks)

Questions for MSS (Economics) Examination

Critically evaluate the claim that mainstream fiscal theory is inadequate for the analysis of post-colonial developing economies. Drawing on the theoretical frameworks introduced in this chapter (Sovereign Developmental Fiscalism, Institutional Fiscal Structuralism, Capability Returns Assessment), construct an alternative analytical framework for evaluating Bangladesh's national budget. (30 marks)

Apply Amartya Sen's capability approach to a systematic evaluation of Bangladesh's budget for FY2025-26 across health, education, social protection, and infrastructure sectors. What capability outcome data are available, what are the capability performance deficits, and what reallocation of resources would a capability-centered budget require? (25 marks)

CHAPTER TWENTY-THREE: NEWS, VIEWS, AND PUBLIC DISCOURSE: THE MEDIA ECONOMY OF BANGLADESH'S BUDGET

23.1 A New Term: The Fiscal Public Sphere

The fiscal public sphere is the networked domain of communication, information, argumentation, and deliberation through which citizens, experts, political actors, civil society organizations, and media institutions collectively construct meaning around public finance, forming judgments about budget priorities, fiscal performance, and the relationship between state spending and

social welfare, in ways that constitute a form of distributed democratic oversight beyond the formal institutions of parliamentary and audit scrutiny.

The fiscal public sphere operates through multiple channels: investigative journalism, think tank research, social media commentary, academic publication, professional association analysis, and informal conversation among citizens whose lives are directly affected by budget decisions. Its health is a function of the breadth of participation (how many voices contribute), the quality of information available (whether citizens and commentators have access to accurate, timely, and comprehensible fiscal data), and the responsiveness of political institutions (whether fiscal public sphere outputs actually influence budget decisions).

In Bangladesh, the fiscal public sphere has grown significantly in depth and sophistication since the early 2000s. Research institutions like the Centre for Policy Dialogue (CPD), the Bangladesh Institute of Development Studies (BIDS), the South Asian Network on Economic Modeling (SANEM), and the International Growth Centre (IGC) Bangladesh office produce rigorous pre-budget and post-budget analyses that are widely reported and genuinely influence fiscal discourse. Financial newspapers including The Financial Express, The Daily Star's business section, and The Business Standard publish detailed budget coverage. And since approximately 2015, social media platforms have extended budget discourse to non-specialist audiences, enabling a form of fiscal populism that has both democratizing and distorting effects.

23.2 Budget Coverage in Bangladesh's Media: A Critical Assessment

Bangladeshi media coverage of the annual budget follows a predictable cycle that reveals both the strengths and systematic limitations of fiscal journalism in the country. In the weeks before the budget presentation, outlets publish "pre-budget expectations" pieces, typically gathering reactions from business associations, economists, and selected civil society voices. On budget day, live television coverage of the Finance Minister's speech, with expert commentary, reaches millions of viewers. In the days following, major newspapers publish detailed analyses by sector, highlighting changes from the previous year. Then, as the fiscal year proceeds, coverage drops dramatically, with the budget rarely receiving sustained investigative attention during implementation.

This cycle has several problematic features. Pre-budget coverage is dominated by the voices of organized business interests, which have the resources to produce polished position papers and cultivate media relationships, while the interests of workers, informal sector participants, and rural communities, who are less organized and less media-connected, are underrepresented. Budget-day coverage emphasizes the theatrical and the anecdotal (which items got cheaper, which more expensive) at the expense of structural analysis (how the overall fiscal architecture serves different groups). Post-budget coverage is episodic, triggered by specific controversies, rather than systematic, tracking implementation against stated targets throughout the year.

A new concept introduced here is Fiscal Journalism Depth Index: a measure of the extent to which a country's media coverage of its national budget addresses not only announcement-day theater but also pre-budget consultation quality, structural fiscal analysis, implementation monitoring, and accountability reporting, weighted by reach and audience diversity. Bangladesh

would score moderately on this index: strong in announcement-day coverage, moderate in structural analysis through think tank partnerships, and weak in systematic implementation monitoring.

The reasons for weak implementation monitoring are both structural and political. Structurally, fiscal implementation data is difficult to access in Bangladesh: in-year expenditure reports through iBAS++ are available to government agencies but not systematically published in a form accessible to journalists. Monthly fiscal data releases are limited in scope and timeliness. The Comptroller and Auditor General's annual audit reports, which document implementation irregularities, typically reach Parliament one to two years after the events they cover, undermining their relevance for real-time accountability journalism. Politically, investigations that expose specific fiscal failures often implicate politically connected actors, creating pressures on media organizations that can depend on government advertising revenue.

23.3 Think Tank Research and Its Influence on Budget Policy

Bangladesh has an unusually vibrant think tank sector by the standards of lower-middle-income countries. The CPD, established in 1993, has built a reputation for independent, rigorous analysis of Bangladesh's economic and fiscal policies that is respected even by governments whose policies it criticizes. Its pre-budget analysis, post-budget assessment, and periodic State of the Bangladesh Economy reports are cited routinely by media, referenced in parliamentary debate, and acknowledged (if not always followed) by the Finance Division.

SANEM produces macroeconomic modeling and distributional analysis that informs understanding of the poverty and inequality implications of fiscal policy. BIDS contributes longer-term research on development issues including education, agriculture, and rural poverty. The Policy Research Institute and BRAC Institute of Governance and Development provide additional analytical capacity. Together these institutions constitute a knowledge ecosystem that the Bangladesh government can draw on, and in a well-functioning fiscal governance system would draw on more systematically.

The relationship between think tank research and actual policy is complex and often indirect. Direct influence, where a think tank recommendation is adopted in the following year's budget, is rare and difficult to trace. Indirect influence, where research findings gradually shift the terms of debate, making certain arguments more or less intellectually respectable in policy circles, is more common but harder to measure. The CPD's sustained campaign around ADP implementation quality, arguing that fewer and better-funded projects would outperform a larger ADP with chronic underfunding, has influenced the discourse even if the structural problem persists.

23.4 Social Media and the Democratization and Distortion of Budget Discourse

The rise of social media as a channel of fiscal discourse in Bangladesh, primarily through Facebook which has approximately 50 million active users in the country, has had democratizing effects that are genuinely significant and distorting effects that deserve equal attention.

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The democratizing effect is that budget discourse no longer reaches only the educated middle class through English-language newspapers or Bangla-medium broadsheet readers. Bangla-language social media content, including video explainers by economists and commentators, infographic summaries of budget allocations, and citizen reactions to price changes on budget goods and services, reaches audiences with limited formal education who previously had no access to budget information. This is a genuine expansion of the fiscal public sphere.

The distorting effect operates through several mechanisms. First, social media rewards simplification and emotional response over complexity and nuance, creating incentives for fiscal commentators to exaggerate impacts, identify villains, and mobilize outrage in ways that distort rather than illuminate. Second, social media enables misinformation to propagate at the same speed as accurate information, with false claims about budget provisions (a budget provision that was actually proposed but not passed, a tax that applies more broadly than announced, a benefit that does not exist as described) sometimes circulating more widely than corrections. Third, social media discourse is vulnerable to coordinated manipulation by political actors seeking to shape public perception of the budget for partisan purposes.

A new principle relevant here is the Principle of Fiscal Information Equity: the requirement that governments make budget information available in formats that are accessible to citizens across the full range of literacy, language, and digital access, including plain Bangla summaries, audio formats, and community-level dissemination through local government channels, rather than assuming that formal budget documents in English constitute adequate public communication.

23.5 International Media, Rating Agencies, and Bangladesh's Fiscal Image

Bangladesh's fiscal situation is evaluated not only in the domestic public sphere but in the international media and financial communities, through mechanisms including credit rating assessments, IMF press releases, World Bank country reports, and international financial press coverage. These external evaluations matter for Bangladesh because they influence the cost of external borrowing, the terms on which international investors engage with Bangladesh, and the political leverage of international creditors in their engagement with the Bangladesh government.

Moody's, S&P, and Fitch's credit ratings of Bangladesh sovereign debt reflect their assessment of fiscal sustainability, institutional quality, and macroeconomic stability. Bangladesh is currently rated in the "speculative" or sub-investment-grade category by major rating agencies, reflecting concerns about revenue adequacy, banking sector vulnerability, and governance quality. A credit rating improvement would reduce the country's external borrowing costs, but achieving it requires the structural fiscal reforms that the rating agencies have consistently identified as necessary.

International financial press coverage of Bangladesh, primarily in outlets like the Financial Times, Bloomberg, and The Economist, has been persistently critical of the banking sector crisis and the revenue adequacy problem, creating a narrative around Bangladesh's fiscal vulnerabilities that can become self-fulfilling if it sufficiently discourages foreign investment. Managing this narrative requires not public relations management but genuine structural reform that changes the fundamental story.

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23.6 Fiscal Populism, Budget Controversies, and the Management of Public Expectations

Fiscal populism is the tendency of political actors to make budget announcements that prioritize immediate popular appeal over fiscal sustainability, structural coherence, or long-term developmental return. Pre-election budgets in particular are associated with fiscal populism across many democracies, a pattern documented theoretically in the political business cycle literature and empirically in Bangladesh's own fiscal history.

The CPD's assessment of the FY2025-26 budget noted that its fundamental philosophy of building an "inequality-free society" is not reflected in the practical measures taken, a pointed critique that identifies the gap between populist rhetoric and fiscal substance. The budget speech, which is a political document read before television cameras and parliamentary audiences, routinely employs the language of equity, transformation, and human dignity without the budget allocations that would give these commitments operational content.

Budget controversies in Bangladesh's fiscal public sphere have repeatedly centered on three types of claim: first, claims that the budget is regressive and benefits the wealthy at the expense of the poor (a claim that the tax justice and distributional analysis literature supports in broad terms); second, claims that the revenue targets are unrealistic and that the advertised deficit is not the real deficit (a claim that has been substantiated by the persistent pattern of revenue shortfalls); and third, claims that the development budget is captured by politically connected contractors and that implementation quality is systematically below what the allocations would suggest (a claim supported by project audit findings and IMED reports).

Each of these controversies reflects genuine structural problems, not merely political opposition talking points, and the fiscal public sphere serves a genuine function when it surfaces and sustains attention to them. The challenge is that exposure without accountability, controversy without consequence, produces cynicism rather than reform.

23.7 Exam Questions: Chapter Twenty-Three

Questions for BEcon Examination

Define the fiscal public sphere and explain its functions in the democratic governance of public finance. What are the three main channels through which Bangladesh's fiscal public sphere operates, and how effective is each? (15 marks)

What is the Fiscal Journalism Depth Index? Score Bangladesh's media coverage of its annual budget on this index, providing specific evidence for your assessment of each dimension. (15 marks)

Define fiscal populism. Identify two specific examples from Bangladesh's budget history where the gap between fiscal rhetoric and fiscal reality is particularly large. (10 marks)

Explain the Principle of Fiscal Information Equity. Is this principle satisfied in Bangladesh's current approach to budget communication? What reforms would better satisfy it? (10 marks)

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Questions for BSS (Economics) Examination

Critically assess the role of civil society think tanks, particularly the CPD, in Bangladesh's fiscal public sphere. What is the evidence for their influence on budget policy? What are the limits of their influence? (15 marks)

How has social media simultaneously democratized and distorted fiscal discourse in Bangladesh? Use specific examples to illustrate both effects. (12 marks)

How do international credit rating assessments and IMF press releases influence Bangladesh's fiscal policy choices? Is this external discipline on fiscal policy democratically legitimate? (12 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive framework for evaluating the quality of fiscal public spheres in developing democracies. Apply this framework to Bangladesh, and compare Bangladesh's fiscal public sphere to those of India and Vietnam. What specific institutional innovations would most effectively strengthen Bangladesh's fiscal public sphere? (30 marks)

The CPD has consistently argued that Bangladesh's budgets are structurally regressive and inadequate in their delivery of public services to the least advantaged. Drawing on specific budget data from FY2023-24, FY2024-25, and FY2025-26, critically evaluate the CPD's assessment. Does the evidence support the regressive and inadequacy claims? (25 marks)

CHAPTER TWENTY-FOUR: FISCAL CONTROVERSIES, INVESTIGATIONS, AND ACCOUNTABILITY CRISES IN BANGLADESH

24.1 A New Doctrine: The Doctrine of Fiscal Reckoning

The Doctrine of Fiscal Reckoning holds that the structural integrity of a state's fiscal system depends not only on the quality of institutions and rules designed to prevent fiscal abuse but on the credibility of the accounting, investigative, and enforcement mechanisms through which abuses, when they occur, are identified, publicly disclosed, and consequentially sanctioned. A fiscal system in which abuse goes uninvestigated, investigation goes unresolved, and resolution goes unpunished creates a systemic moral hazard that encourages further and escalating abuse.

Fiscal reckoning is not simply backward-looking punishment. It is forward-looking deterrence: the knowledge that abuses will be traced and sanctioned changes the calculations of actors who might otherwise exploit the fiscal system for private benefit. A state without credible fiscal reckoning mechanisms, where financial crimes involving public resources routinely escape accountability, is structurally prone to the capture of public resources by private interests in ways that undermine both fiscal performance and developmental outcomes.

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Bangladesh has struggled throughout its fiscal history to establish credible fiscal reckoning, not for lack of formal institutions (the CAG exists, the Anti-Corruption Commission exists, the courts function), but because the political economy of accountability in Bangladesh has repeatedly created pressures that protect powerful actors from the full consequences of fiscal malfeasance. The interim government that took power in August 2024 has made anti-corruption and fiscal accountability central to its reform agenda, establishing a fiscal reckoning opportunity that may be historically unique.

24.2 Case Study: The Non-Performing Loan Crisis and Its Fiscal Consequences

The non-performing loan (NPL) crisis in Bangladesh's banking sector represents the largest single fiscal controversy of the past decade, with consequences for the national budget that are direct, substantial, and long-lasting.

As of June 2025, the IMF's country report noted that the reported regulatory capital ratio of 4.5 percent was overstated due to sizeable deferred loan loss provisions in 27 banks. The actual NPL ratio in the banking system is significantly higher than officially reported, with many restructured loans classified as performing that would, under stricter international accounting standards, require recognition as non-performing.

The fiscal consequences of the NPL crisis flow through three channels. The first is the direct recapitalization cost: when state-owned banks become insolvent due to NPL accumulation, the government must provide capital injections to maintain their solvency. Bangladesh has provided substantial recapitalization funding to state-owned banks in recent budget cycles, with these transfers representing a fiscal cost of NPL accumulation that is financed by all taxpayers while the benefits of the loans that generated the losses flowed to specific connected borrowers.

The second channel is the opportunity cost of central bank support: several weak banks have been kept operational through uncollateralized liquidity support from Bangladesh Bank, amounting to approximately 1 percent of GDP at end-June 2025 according to the IMF. This represents a quasi-fiscal operation that blurs the boundary between monetary policy and fiscal support, weakening Bangladesh Bank's balance sheet and complicating monetary policy management.

The third channel is the growth and revenue cost: a banking sector burdened by high NPLs cannot efficiently intermediate between savers and productive borrowers. Credit to the private sector is constrained or misallocated toward politically connected borrowers rather than economically productive ones. The resulting misallocation of capital reduces economic growth, which reduces the tax base, which reduces fiscal revenues. The NPL crisis is thus not only a banking problem but a fiscal problem.

The origins of the NPL crisis lie in the political economy of credit allocation in Bangladesh. Multiple investigations and research studies have documented that the largest defaulters in the banking system are not primarily small businesses that failed commercially but large conglomerates, often with political connections, that obtained large loans on the basis of inflated collateral values, politically mediated loan approvals, and subsequently renegotiated,

restructured, and defaulted on their obligations without facing the enforcement consequences that the legal framework nominally provides.

24.3 Case Study: The S. Alam Group and Banking Sector Capture

The case of the S. Alam Group represents perhaps the most extensively documented example of private capture of the public banking system in Bangladesh's history. This conglomerate, based in Chattogram, allegedly obtained control or substantial influence over multiple banks through acquisition of shares, placement of affiliated individuals in board positions, and the use of political connections to protect its position. The alleged scheme involved obtaining large loans from banks under its influence, transferring funds offshore through complex subsidiary structures, and using the banks as instruments of private capital accumulation rather than financial intermediation for the public good.

The interim government that took power in 2024 initiated significant legal and regulatory action against entities associated with the S. Alam Group, including asset seizures, banking license reviews, and criminal investigations. Several senior banking sector figures associated with the period of alleged regulatory indulgence have been investigated or charged. The fiscal consequences of this capture of banking sector resources are still being quantified but are clearly substantial.

This case study illuminates the systemic nature of banking sector capture in Bangladesh: it was not simply one bad actor but a system of incentives, regulatory failures, political protections, and institutional weaknesses that allowed the exploitation to persist for years. Reform therefore requires systemic changes, including strengthened banking supervision independence, criminal accountability for both regulators who fail and executives who exploit, and structural reforms to bank governance that reduce the influence of large shareholders over lending decisions to related parties.

24.4 Case Study: ADP Project Fraud and the Ghost of Implementation

Annual Development Programme project fraud and implementation failure is a less dramatic but fiscally more significant accountability crisis than any individual banking scandal. The systematic gap between ADP allocation and ADP implementation has been documented extensively by IMED, the CAG, the CPD, and academic researchers. Several dimensions of this gap deserve specific investigation.

The first is ghost project implementation: projects for which funds are disbursed and expenditure is booked in the accounting system but where physical work either does not occur or occurs at far below the quality and quantity the expenditure should have delivered. Road construction projects where the contract is awarded, payment certificates are produced by engineers, and funds are disbursed but the road is never built to specification, or deteriorates immediately due to substandard materials, represent this category. CAG reports routinely document examples.

The second is inflated project cost through procurement manipulation: the public procurement system, governed by the Public Procurement Act 2006 and the Public Procurement Rules 2008,

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is intended to ensure competitive bidding that secures the lowest compliant price. In practice, evidence from OECD and domestic research suggests widespread cartelization of bids, bid steering by officials with conflicts of interest, and the manipulation of technical specifications to favor predetermined contractors.

The third is project proliferation without prioritization: the political economy of ADP project selection creates incentives for elected officials to seek new projects for their constituencies rather than ensuring completion of existing ones. The result is an ADP overloaded with projects at various stages of completion, each insufficiently funded to make progress, while the politically and developmentally highest-priority investments compete with thousands of low-priority entries for a constrained resource pool.

A new concept introduced here is the Fiscal Implementation Accountability Gap: the systematic distance between the fiscal commitments made in the budget and the fiscal outcomes achieved in implementation, measured not merely as a percentage of total ADP utilization but as a function of outcome quality, allocation appropriateness, and procurement integrity. Bangladesh's Fiscal Implementation Accountability Gap is large and is a central challenge for the fiscal governance reform agenda of the interim government.

24.5 International Case Studies in Fiscal Accountability: Lessons for Bangladesh

Several international experiences in fiscal accountability reform offer lessons applicable to Bangladesh's situation.

Brazil's experience with its Lei de Responsabilidade Fiscal (2000) and subsequent strengthening of its Controladoria-Geral da União (CGU), the internal audit and anti-corruption body, demonstrates that statutory fiscal rules combined with genuine administrative accountability can significantly reduce fiscal abuse. Brazil's portal de transparência, a public transparency portal that publishes all federal government expenditure in real time at the contractor level, has been emulated by several countries and cited as a model for what digital transparency tools can achieve.

South Korea's experience with fiscal transparency reform following the 1997-98 Asian financial crisis illustrates how an acute fiscal crisis can create the political momentum for comprehensive institutional reform. The Korean government's introduction of digital procurement (the KONEPS system, which processes all public procurement electronically and creates auditable records), combined with independent audit and prosecution of procurement corruption, significantly reduced waste and fraud in public spending.

Rwanda's experience with what its government terms "Imihigo" (performance contracts), under which senior officials including ministers and district governors sign public commitments to specific measurable outcomes and are held publicly accountable through annual presidential review of performance, represents an interesting adaptation of performance management thinking to the specific political culture of a post-conflict developmental state.

Bangladesh can draw from all three experiences. The transparency lessons of Brazil, the digital procurement integrity lessons of South Korea, and the executive performance accountability culture of Rwanda all address specific weaknesses in Bangladesh's current fiscal accountability architecture.

24.6 The Anti-Corruption Architecture: Institutional Design and Its Limits

Bangladesh's formal anti-corruption architecture includes the Anti-Corruption Commission (ACC) established under the Anti-Corruption Commission Act 2004, the Comptroller and Auditor General (CAG) whose constitutional independence is intended to make audit reports objective, and the courts through which corruption cases are prosecuted. Between July 2024 and January 2025, the ACC registered 515 cases, submitted chargesheets in 814 cases, and obtained convictions in 59 cases.

The conviction rate relative to cases registered, while improving under the interim government, reflects longstanding weaknesses in the anti-corruption architecture. The ACC has faced persistent criticism for selective enforcement, politically motivated prosecution, and inadequate investigative capacity for complex financial crimes. The courts, while formally independent, face backlogs and capacity constraints that make complex financial crime prosecutions extremely slow. And the culture of impunity that has protected politically connected defendants from serious consequences for financial crimes is deeply embedded and requires sustained political commitment to change.

The most important institutional reform needed in Bangladesh's anti-corruption architecture is not the creation of new bodies but the combination of three changes to existing institutions: first, genuine operational independence for the ACC from both executive direction and political pressure; second, specialized financial crimes investigation and prosecution capacity, including forensic accounting experts, international mutual legal assistance relationships to trace offshore assets, and prosecutors trained in complex financial crime; and third, asset recovery mechanisms that make corruption financially costly even for actors who manage to avoid criminal conviction.

24.7 Exam Questions: Chapter Twenty-Four

Questions for BEcon Examination

Define the Doctrine of Fiscal Reckoning. Why is fiscal reckoning important not just for backward-looking justice but for forward-looking deterrence? What is the current state of fiscal reckoning capacity in Bangladesh? (15 marks)

Define the Fiscal Implementation Accountability Gap. How does it differ from the simple measure of ADP utilization rates? What causes this gap in Bangladesh's ADP system? (15 marks)

Explain the three fiscal channels through which Bangladesh's NPL crisis affects the national budget. Quantify each channel using the data available for FY2025. (15 marks)

Questions for BSS (Economics) Examination

Analyze the case of the S. Alam Group as an example of banking sector capture. What specific institutional weaknesses in Bangladesh's banking regulatory system enabled this capture, and what reforms are needed to prevent recurrence? (15 marks)

Compare Brazil's anti-corruption infrastructure (Lei de Responsabilidade Fiscal, CGU, transparency portal) with Bangladesh's current approach. What specific elements of the Brazilian model should Bangladesh adopt, and what adaptations would be needed for the Bangladeshi context? (12 marks)

Why does ADP project fraud persist despite the existence of formal procurement rules and audit mechanisms? Identify three specific gaps in the enforcement architecture and propose reforms for each. (12 marks)

Questions for MSS (Economics) Examination

Develop a comprehensive reform program for Bangladesh's fiscal accountability architecture, addressing the Non-Performing Loan crisis, ADP implementation fraud, and executive branch fiscal discipline. Drawing on the international cases of Brazil, South Korea, and Rwanda, specify the institutional design changes, legal reforms, and enforcement capacity investments needed, and analyze the political economy of achieving these reforms in Bangladesh's current context. (35 marks)

Critically evaluate the performance of Bangladesh's Anti-Corruption Commission from 2015 to 2025. Using principal-agent theory and public choice theory, explain why the ACC has underperformed relative to its institutional mandate, and propose specific institutional design changes that would correct these incentive failures. (25 marks)

CHAPTER TWENTY-FIVE: PUBLIC HEALTH FINANCING, THE MEDICAL ECONOMY, AND PANDEMIC FISCAL ARCHITECTURE

25.1 A New Definition: Medical Fiscal Architecture

Medical fiscal architecture is the integrated system of public financing mechanisms, institutional actors, policy instruments, incentive structures, and information platforms through which a state funds health services, manages the distribution of health financing burden across income groups, organizes the production and delivery of health care, and builds the institutional resilience needed to respond to health emergencies, including epidemics, pandemics, climate-related disease burdens, and mental health crises.

This definition is broader than the common framing of health budget as a line item in the government's annual expenditure plan. It encompasses the interaction between public health spending and private out-of-pocket expenditure that together determine the total financing

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landscape for health care. It includes the fiscal dimension of health insurance systems, whether public, private, or social insurance-based. It addresses the relationship between health financing and health system performance, acknowledging that the fiscal resources available are insufficient in themselves to explain health outcomes; the institutional arrangements through which those resources are converted into services also matter enormously.

For Bangladesh, the medical fiscal architecture is characterized by a structural paradox: the country has achieved remarkable public health progress on some dimensions (sharp reductions in maternal and child mortality, successful management of endemic infectious diseases including cholera and tuberculosis, near-universal immunization coverage) with health budget allocations well below international benchmarks, while simultaneously failing catastrophically on other dimensions, particularly catastrophic out-of-pocket health expenditure that pushes hundreds of thousands of households into poverty annually.

25.2 The Health Budget: Structure, Adequacy, and the Catastrophic Expenditure Crisis

Bangladesh's health budget for FY2025-26 allocates approximately 0.85 to 0.9 percent of GDP to public health expenditure, far below the World Health Organization's recommended minimum of 5 percent and well below the median for lower-middle income countries of approximately 2.5 percent. The total public health expenditure, including both government budget and development partner contributions to health programs, reaches approximately 2.8 to 3 percent of GDP, still below regional comparators. But the most revealing figure is the out-of-pocket (OOP) share of total health expenditure, which in Bangladesh has historically been among the highest in the world, exceeding 70 percent, meaning that the vast majority of health spending is paid directly by patients and families at the point of care.

A new term introduced here is the OOP Catastrophe Threshold: the level of out-of-pocket health expenditure at which a household's health care costs exceed 40 percent of its non-food consumption expenditure, a point at which the household is considered to have experienced catastrophic health expenditure and is likely either to forgo necessary care or to experience a significant drop in consumption of other essentials including food. Bangladesh's estimated rate of catastrophic health expenditure has ranged between 12 and 17 percent of households in different survey periods, meaning that between 8 and 12 million households experience fiscal catastrophe from health costs in any given year. This is not a minor distributional problem. It is a systemic failure of the medical fiscal architecture.

The structure of Bangladesh's health budget reflects priorities that do not align with either the burden of disease or the principles of equity-centered health financing. Hospital and curative care receive the majority of public funding, while primary health care, community health workers, and preventive programs that address the leading causes of morbidity and mortality in the population receive a smaller share. Urban tertiary facilities, which serve predominantly urban middle-class patients, consume a disproportionate share of the specialist workforce and capital equipment budget relative to their burden-of-disease contribution. The Upazila Health Complex system, which is intended to provide comprehensive primary care to rural populations, is chronically underfunded, understaffed, and undersupplied with essential medicines and equipment.

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25.3 Universal Health Coverage: The Fiscal Gap and the Path Forward

Universal Health Coverage (UHC), the goal of ensuring that all people receive the health services they need without suffering financial hardship from paying for them, is a central commitment of Sustainable Development Goal 3. Bangladesh has expressed formal commitment to UHC in multiple policy documents and the health sector strategy, but the fiscal gap between this commitment and current resource levels is enormous.

The World Health Organization has estimated that achieving UHC in low-income and lower-middle-income countries requires public health spending of at least 5 percent of GDP, with equitable distribution across primary, secondary, and tertiary levels. Bangladesh would need to roughly quintruple its current public health budget as a share of GDP to reach this threshold. Even a path toward UHC over a 10 to 15-year horizon, raising health spending by 0.25 to 0.3 percentage points of GDP per year, would require a sustained revenue-enhancing fiscal reform that makes resources available without crowding out other developmental priorities.

Several middle-income countries provide instructive examples of UHC financing pathways. Thailand's Universal Coverage Scheme, introduced in 2002, was financed primarily through general tax revenue and extended comprehensive coverage to virtually the entire population within a decade. The key design choices were: a single government purchaser that could negotiate provider prices, a comprehensive benefit package that prioritized primary and preventive care, strong primary care gatekeeping to manage referral costs, and a robust health information system that enabled cost monitoring and quality management.

Rwanda's community-based health insurance scheme, Mutuelle de Santé, achieved near-universal enrollment by making insurance premiums income-contingent, with the poorest households receiving government subsidies covering the full premium. The scheme dramatically reduced out-of-pocket expenditure and improved both access to care and health outcomes, with particularly strong effects on maternal and child health.

Bangladesh's path to UHC must account for specific contextual realities: the large informal sector where income-linked premium collection is administratively challenging, the geographic distribution of population across thousands of settlements with highly varying health service infrastructure, the private health sector that delivers a substantial share of health care and cannot simply be bypassed in any coverage scheme, and the budgetary constraint that limits the fiscal space for new programs without compensating revenue enhancement.

25.4 Pandemic Preparedness Financing: Bangladesh's COVID Lessons and the IHR 2005 Framework

The COVID-19 pandemic demonstrated, globally, the catastrophic fiscal cost of inadequate pandemic preparedness. Countries that had invested in public health surveillance, laboratory capacity, stockpiles of personal protective equipment, healthcare workforce surge capacity, and community health communication infrastructure suffered less severe mortality and economic disruption than those that had neglected these investments. Bangladesh's performance was

mixed: the country avoided the worst mortality outcomes and mounted a credible vaccination campaign, but the pandemic exposed deep weaknesses in the medical fiscal architecture.

The International Health Regulations (IHR) 2005, a binding international treaty that requires member states to maintain core capacities for public health surveillance and response, provide a framework for measuring pandemic preparedness investments. Bangladesh's JEE (Joint External Evaluation) scores under the IHR framework have consistently identified weaknesses in laboratory systems, health emergency preparedness, and risk communication and community engagement. These weaknesses are not primarily scientific or technical but fiscal: they reflect chronic underfunding of the public health system's surveillance and response functions.

A new principle introduced here is the Principle of Epidemiological Fiscal Anticipation: the requirement that health budget allocations include explicit provisions not only for current service delivery but for maintaining and strengthening the surveillance, laboratory, communication, and workforce surge capacities needed to detect and respond to emerging infectious disease threats before they become pandemics. This principle, if operationalized, would require a dedicated pandemic preparedness budget line within the health allocation, subject to clear capacity metrics rather than general health spending targets.

The fiscal cost of pandemic preparedness investment is small compared to the fiscal cost of pandemic response. Bangladesh spent an estimated USD 1 to 2 billion on direct COVID-19 response (excluding indirect economic costs) in FY2019-20 and FY2020-21 combined. Annual investment in pandemic preparedness capacities at the level needed to meet IHR core capacity requirements would cost a fraction of this, and would additionally yield returns in improved routine public health surveillance and response capability.

25.5 The Mental Health Fiscal Deficit

Mental health is the most dramatically underfunded dimension of Bangladesh's health system, and its fiscal neglect is among the most consequential for human welfare and economic productivity.

Epidemiological surveys indicate that approximately 16 to 18 percent of adults in Bangladesh experience a diagnosable mental health disorder, including depression, anxiety disorders, substance use disorders, psychosis, and trauma-related conditions. This translates to approximately 28 to 30 million adults with mental health needs, a staggering figure. The World Bank has estimated that mental health disorders cost Bangladesh's economy the equivalent of approximately 2 to 3 percent of GDP in lost productivity annually.

Against this backdrop, Bangladesh's mental health budget allocation is a fraction of 1 percent of the total health budget. There are fewer than 200 psychiatrists in the country for a population of 170 million, giving a psychiatrist-to-population ratio approximately 100 times lower than WHO recommendations. Community mental health services are minimal, concentrated primarily in Dhaka and a handful of divisional cities, unreachable by the vast majority of the population. Mental health is absent from the Essential Services Package that defines what primary health care facilities should provide.

The fiscal case for mental health investment is strong on both humanitarian and economic grounds. The Lancet Commission on Global Mental Health (2018) calculated that each USD 1 invested in mental health treatment generates a return of USD 4 to 5 in improved health and productivity, one of the highest returns in health investment. Task-shifting approaches, in which community health workers are trained to deliver evidence-based psychological interventions under supervision of specialized professionals, have demonstrated cost-effectiveness in multiple low-income country settings and are feasible in Bangladesh's extensive community health worker infrastructure.

25.6 TRIPS Waiver Loss and Pharmaceutical Fiscal Risk

Bangladesh's graduation from Least Developed Country status, expected in November 2026, will end its eligibility for the TRIPS waiver that currently allows Bangladeshi pharmaceutical manufacturers to produce generic versions of patented medicines without paying royalties to patent holders. This waiver has enabled Bangladesh to develop a substantial domestic pharmaceutical industry that produces most of the essential medicines consumed domestically at prices far below what patent-holder pricing would imply.

The LightCastle analysis of the FY2026 budget estimated that the TRIPS waiver loss may raise medicine prices by nearly 20 percent, with severe implications for patients' out-of-pocket expenditure on medicines, which already constitute the largest single component of household health spending. The fiscal implication for the health budget is that public spending on medicines for government facilities will need to increase significantly to maintain access to essential medicines at subsidized prices, while the broader pharmaceutical market transition will require policy management including possible compulsory licensing under the TRIPS Agreement's Article 31 flexibilities, bilateral agreements with patent holders for differential pricing, and domestic investment in pharmaceutical innovation capacity.

A new doctrine introduced here is the Doctrine of Pharmaceutical Fiscal Transition: the principle that LDC graduation should not be allowed to create a pharmaceutical access cliff in which populations that previously had access to affordable generics find themselves suddenly unable to afford patented medicines at full price, and that the fiscal and regulatory architecture for managing this transition should be explicitly planned, resourced, and implemented well before the graduation date, not improvised in response to the crisis it creates.

25.7 One Health and the Intersectoral Fiscal Architecture

The One Health approach, increasingly adopted in global health policy, holds that human health, animal health, and environmental health are inextricably linked and that policy and investment in these domains must be coordinated rather than managed in isolated silos. The rationale is epidemiological: the majority of emerging infectious diseases (including COVID-19, avian influenza, Nipah virus, and antimicrobial-resistant infections) originate at the human-animal-environment interface, and investment in veterinary surveillance, environmental monitoring, and ecosystem health can prevent human health crises at far lower cost than responding after emergence.

Bangladesh's fiscal architecture treats human health (Ministry of Health and Family Welfare), animal health (Ministry of Fisheries and Livestock), and environmental health (Ministry of Environment, Forest, and Climate Change) as entirely separate budget domains with minimal systematic coordination. The One Health approach would require an intersectoral fiscal coordination mechanism that enables joint planning, resource pooling, and implementation monitoring across these ministries for programs addressing shared health risks, including zoonotic disease surveillance, antimicrobial resistance stewardship, and climate change-related disease burden.

A new concept introduced here is the One Health Fiscal Multiplier: the ratio of the reduction in total health system costs (including human, animal, and environmental health costs) achieved by a given investment in integrated One Health programs, relative to the cost of that investment, reflecting the fact that prevention at the human-animal-environment interface generates returns across multiple budget domains simultaneously.

25.8 Exam Questions: Chapter Twenty-Five

Questions for BEcon Examination

Define the OOP Catastrophe Threshold and explain its significance for evaluating Bangladesh's medical fiscal architecture. What does the estimated rate of catastrophic health expenditure in Bangladesh imply about the adequacy of current public health financing? (15 marks)

Explain the Principle of Epidemiological Fiscal Anticipation. Why is pandemic preparedness investment more fiscally rational than pandemic response spending? What specific budget provisions would operationalize this principle in Bangladesh? (15 marks)

Define the Doctrine of Pharmaceutical Fiscal Transition. What specific fiscal and regulatory measures should Bangladesh implement before November 2026 to manage the pharmaceutical consequences of LDC graduation? (15 marks)

Questions for BSS (Economics) Examination

Compare Thailand's Universal Coverage Scheme with Rwanda's Mutuelle de Santé as models for Bangladesh's path toward Universal Health Coverage. Which model is more appropriate for Bangladesh and why? What fiscal requirements would the chosen model impose on the national budget? (15 marks)

Explain the One Health Fiscal Multiplier concept. Why does the One Health approach generate higher fiscal returns than sectoral health investments? Provide two specific examples from Bangladesh's epidemiological context where One Health investment would generate cross-sectoral fiscal savings. (12 marks)

Make the economic case for significantly increasing Bangladesh's mental health budget from its current level. What is the estimated economic cost of untreated mental illness in Bangladesh?

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What specific service delivery model would generate the highest return per taka invested? (12 marks)

Questions for MSS (Economics) Examination

Develop a comprehensive medical fiscal architecture reform plan for Bangladesh that addresses: the catastrophic out-of-pocket expenditure crisis, the path toward Universal Health Coverage, pandemic preparedness financing, mental health fiscal neglect, and the TRIPS waiver transition. For each component, specify the fiscal costs, the financing sources, the institutional reforms required, and the expected outcomes over a 10-year horizon. Prioritize and sequence the reforms given Bangladesh's current fiscal constraints. (35 marks)

Critically evaluate Bangladesh's COVID-19 fiscal response using the framework of the Doctrine of Fiscal Reckoning and the Principle of Epidemiological Fiscal Anticipation. What did Bangladesh do well, what did it fail to do, and what institutional and fiscal changes were needed to produce a better response? (25 marks)

CHAPTER TWENTY-SIX: THE LEGISLATURE, POLICY PROCESS, AND PARLIAMENTARY OVERSIGHT OF THE BUDGET

26.1 A New Principle: The Principle of Deliberative Fiscal Democracy

Deliberative Fiscal Democracy is the principle that legitimate budget decisions in a democratic state require not merely formal parliamentary approval through majority vote but a genuine process of informed deliberation in which affected populations, through their elected representatives and through civil society participation, have meaningful opportunities to contribute information, raise objections, propose alternatives, and receive substantive responses before fiscal decisions are finalized.

This principle builds on the deliberative democracy theory associated with Juergen Habermas, Seyla Benhabib, and Amy Gutmann, applying it specifically to the fiscal domain. Standard theories of parliamentary democracy emphasize the legitimacy of majority decision-making through elected representatives, treating the budget vote as sufficient democratic authorization. Deliberative Fiscal Democracy insists that the quality of the deliberation through which the majority reaches its decision matters for both the epistemic quality of the decision (informed deliberation tends to produce better decisions) and the normative legitimacy of the outcome (decisions made through genuine engagement with affected stakeholders are more legitimate than decisions made through information-poor, politically constrained voting).

Bangladesh's budget process falls substantially short of Deliberative Fiscal Democracy. The preparation process is largely closed, with Finance Division officials consulting selectively and major budget decisions made within a small circle of senior bureaucrats and political leaders. Pre-budget consultations, while nominally conducted by the Finance Division, are limited in scope and have uncertain influence on actual budget decisions. The parliamentary debate is

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constitutionally bounded by the majority's ability to defeat all substantive amendments. Civil society participation is informal and reactive rather than structured and formative.

26.2 The Parliamentary Budget Debate: Procedure and Reality

The constitutional and procedural framework for parliamentary budget debate in Bangladesh operates as follows. Following the Finance Minister's budget speech, which presents the proposed Annual Financial Statement and Finance Bill, the National Parliament conducts a general discussion of several days. Individual members, from both government and opposition benches, may speak on the budget. Opposition members may table "cut motions" on specific demand-for-grants (expenditure heads), seeking reductions in particular allocations. The Finance Bill, containing tax proposals, is debated and voted on. The Appropriation Act is passed, authorizing the government to draw from the Consolidated Fund.

The reality of this process is that substantive deliberation is minimal. The governing party's members speak in support of the budget; the opposition speaks against it; cut motions are tabled and defeated along party lines. No government budget in Bangladesh's parliamentary history has been substantially modified through the parliamentary process. The budget is prepared by the executive and ratified by the legislature with the same predictability as other legislation in a parliamentary system with strong party discipline and a comfortable majority.

The mechanisms through which the legislature can exercise genuine fiscal oversight operate not through the budget debate itself but through the committee system, and specifically through the Public Accounts Committee (PAC). The PAC, which examines the CAG's audit reports and can summon officials to explain fiscal irregularities, is the most consequential legislative fiscal oversight body. Under the Constitution, the PAC is chaired by a member of the opposition, intended to ensure its independence from the executive. In practice, the PAC's effectiveness has varied considerably with the commitment of its chair, the cooperation of the Finance Division and line ministries, and the political context.

A new concept introduced here is the Post-Appropriation Fiscal Accountability Cycle: the institutional loop through which audit findings from the CAG are reviewed by the PAC, the PAC issues recommendations to ministries and the Finance Division, ministries respond to these recommendations, and the PAC assesses the adequacy of the response in subsequent sessions. The strength of this cycle, measured by the quality of CAG findings, the timeliness of PAC review, the specificity of PAC recommendations, and the accountability of ministries for implementing them, determines whether parliamentary fiscal oversight has real teeth.

In Bangladesh, this cycle is too slow, too partial, and too disconnected from real-time budget management to function as genuine accountability. CAG reports covering a fiscal year typically arrive at the PAC one to two years later. The PAC cannot review all audit findings and concentrates on a subset. Ministries' responses to PAC recommendations are tracked inconsistently. And the recommendations, even when followed, rarely produce consequences for the officials whose decisions generated the audit findings.

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26.3 The CAG: Constitutional Independence and Institutional Reality

The Comptroller and Auditor General holds a constitutional office whose independence is guaranteed by provisions requiring any removal from office to follow the same procedure as removal of a Supreme Court judge. This formal independence is intended to insulate the audit function from executive pressure.

In practice, Bangladesh's CAG faces two types of constraints on its functional independence. The first is resource and capacity constraints: the CAG's office has limited staff with specialized audit skills for complex financial transactions, including the forensic accounting capacity needed to audit complex infrastructure projects or bank recapitalization schemes. International development partners have provided technical assistance to the CAG, including on IT-supported audit systems, but capacity remains constrained relative to the scale and complexity of the public finance system it must audit.

The second is structural: the CAG audits government accounts after the fact, providing a historical record of what happened, but has no real-time access to budget execution data that would enable concurrent audit, the most effective form of accountability for preventing fraud and waste before it is embedded in completed transactions. The integration of the CAG's access with the iBAS++ system, which processes budget transactions in real time, is an ongoing reform objective that has made partial progress.

An important institutional innovation that would significantly strengthen parliamentary fiscal oversight is the establishment of an independent Parliamentary Budget Office (PBO). A PBO, modeled on the Congressional Budget Office of the United States, the Parliamentary Budget Officer of Canada, or the Office for Budget Responsibility of the United Kingdom, would provide Parliament with independent, non-partisan analytical capacity to evaluate the government's fiscal assumptions, produce alternative fiscal scenarios, and assess the medium-term fiscal implications of specific legislative proposals. Currently, Parliament depends entirely on the Finance Division for fiscal analysis, creating an obvious information asymmetry that limits meaningful legislative oversight.

26.4 Policy-Making in Bangladesh's Budget: The Interplay of Research, Lobbying, and Institutional Inertia

The actual process of budget policy-making in Bangladesh is more complex than the formal procedural description suggests. Several distinct types of actors seek to influence budget decisions through different channels.

The professional economics community, based in academia, research institutions, and government economics services, participates through pre-budget analyses, participation in Finance Division consultation processes, and informal advisory relationships with senior officials. This community is generally evidence-oriented and methodologically rigorous, but its influence is constrained by the political economy of budget-making and the limited institutionalization of evidence-based policy processes within the Finance Division.

Business lobbying organizations, including the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), the Dhaka Chamber of Commerce and Industry (DCCI), the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), and numerous sectoral associations, maintain formal and informal engagement channels with both the Finance Division and elected officials. Their pre-budget memoranda are submitted annually and their concerns, particularly on tax rates, exemptions, and import duty structures, receive substantial attention. This reflects both the genuine importance of the business sector's views for fiscal policy and the political economy of organized business interests relative to unorganized consumer and worker interests.

International financial institutions, primarily the IMF and World Bank, exercise formal influence through the conditionality of their lending programs and informal influence through the resident missions' technical dialogue with the Finance Division, Ministry of Finance, and Bangladesh Bank. The IMF's role in particular has been more influential than usual since the 2023 Extended Credit Facility arrangement, with performance criteria and structural benchmarks effectively mandating specific fiscal policy choices within a timeframe that Parliament does not review.

A new doctrine introduced here is the Doctrine of Fiscal Policy Pluralism: the principle that the process of budget policy-making should be designed to ensure that the range of perspectives, evidence, and interests informing fiscal decisions is genuinely plural, including not only the politically dominant and economically powerful voices but the research-based analytical community, civil society organizations representing marginalized populations, and systematic evidence on what fiscal policies have actually delivered in terms of human welfare outcomes. Current budget process design in Bangladesh underrepresents some of these voices systematically.

26.5 Civil Society Participation in the Budget Process: Achievements and Limits

Civil society participation in Bangladesh's budget process operates through several channels. Pre-budget consultation meetings organized by the Finance Division nominally include civil society representation, though the selection of participants and the influence of these meetings on actual decisions are both contested. Budget analysis by think tanks and NGOs reaches policymakers indirectly through media, parliamentary debate, and informal networks. BRAC, the world's largest NGO and a major player in Bangladesh's development landscape, produces systematic analysis of budget provisions affecting the poor and advocates for specific reforms.

Gender civil society organizations have made measurable progress in institutionalizing gender-responsive budgeting within the formal budget process. The introduction of gender budget reports from 44 ministries and the FY2025-26 budget's acknowledgment of women's unpaid care work reflect sustained advocacy over more than a decade.

Environmental and climate civil society organizations have had more limited success in translating their analysis of climate fiscal risk into budget allocations. Despite Bangladesh being among the countries most exposed to climate change, and despite the availability of international climate finance through the Green Climate Fund and bilateral programs, the integration of climate finance planning into the regular budget process remains incomplete.

The most significant limitation on civil society participation in the budget process is not formal exclusion but information asymmetry: civil society organizations, however well-motivated and analytically capable, cannot effectively monitor and advocate on a budget they cannot access in real time with sufficient detail to identify specific problems. The push for open budget standards in Bangladesh, measured by the International Budget Partnership's Open Budget Survey (which assessed Bangladesh at 26 out of 100 in 2021, in the lowest quartile of surveyed countries on budget transparency), is the most direct civil society contribution to improving the conditions for genuine fiscal accountability.

26.6 Comparative Parliamentary Budget Oversight: Learning from Advanced Systems

South Korea's National Assembly Budget Office (NABO), established in 2003, provides a model for what strong parliamentary fiscal oversight looks like in practice. NABO has a staff of approximately 200 economists and fiscal specialists, the legal mandate to analyze all government fiscal proposals and produce independent cost estimates, and the institutional culture of genuine analytical independence that allows it to disagree with government positions without political consequence. Its analyses are routinely cited in budget debate and have demonstrably influenced fiscal policy decisions.

The UK's Office for Budget Responsibility (OBR), established in 2010 following concerns about the Treasury's optimism bias in its own economic forecasts, independently verifies the government's fiscal forecasts and assesses whether fiscal rules are being met. The OBR's assessments have political consequence: a Chancellor whose budget does not meet the OBR's fiscal rule assessment faces immediate political pressure to adjust.

Canada's Parliamentary Budget Officer (PBO) has demonstrated that a small, well-staffed independent institution can have significant influence on the quality of fiscal debate even without formal enforcement powers. The PBO's credibility rests on its analytical quality and political independence, not on any formal power to override the government.

Bangladesh's path toward stronger parliamentary fiscal oversight requires, as a minimum first step, the establishment of a Parliamentary Budget Office with genuine analytical independence, adequate staffing including economists and sectoral analysts, statutory access to government fiscal data, and the mandate to produce independent assessments of the government's budget assumptions and fiscal rule compliance.

26.7 Exam Questions: Chapter Twenty-Six

Questions for BEcon Examination

Define Deliberative Fiscal Democracy. How does Bangladesh's current budget process score on this principle? Identify three specific institutional reforms that would bring the budget process closer to the Deliberative Fiscal Democracy standard. (20 marks)

Explain the Post-Appropriation Fiscal Accountability Cycle. What are the main weaknesses of this cycle in Bangladesh's current institutional system, and how could each weakness be addressed? (15 marks)

Define the Doctrine of Fiscal Policy Pluralism. Is this doctrine satisfied in Bangladesh's budget policy-making process? Which voices are systematically underrepresented and why? (10 marks)

Questions for BSS (Economics) Examination

Compare Bangladesh's CAG with the UK's Office for Budget Responsibility and South Korea's NABO as models of fiscal oversight. What specific institutional design features would Bangladesh need to adopt to achieve comparable oversight effectiveness? (15 marks)

Explain how cut motions work in Bangladesh's parliamentary budget process. Are they an effective instrument of parliamentary fiscal oversight? What alternatives might be more effective? (10 marks)

"Civil society participation in Bangladesh's budget process is more symbolic than substantive." Do you agree? Provide specific evidence for your assessment and propose reforms that would make participation more substantively influential. (12 marks)

Questions for MSS (Economics) Examination

Using Habermas's deliberative democracy theory and Rawls's theory of public reason, develop a normative framework for evaluating the democratic legitimacy of national budget processes in developing countries. Apply this framework to Bangladesh, India, and Vietnam, and assess which country's budget process is most democratically legitimate and why. (30 marks)

Design a comprehensive parliamentary fiscal oversight reform for Bangladesh, including the institutional design of a Parliamentary Budget Office, reforms to the PAC, improvements to CAG effectiveness, and mechanisms for civil society and citizen participation. Specify the legislative changes, institutional capacity investments, and political economy strategies needed to implement these reforms. (30 marks)

CHAPTER TWENTY-SEVEN: ADVANCED FISCAL MODELING, QUANTITATIVE RESEARCH METHODS, AND THE EPISTEMICS OF BUDGET ANALYSIS

27.1 A New Concept: Fiscal Epistemics

Fiscal epistemics is the study of how knowledge about fiscal systems is produced, validated, contested, and applied, including the data sources, analytical methods, theoretical frameworks, and institutional settings through which fiscal claims are established as credible enough to inform policy, and the systematic biases, errors, and omissions that characterize different modes of fiscal knowledge production.

The term is introduced here because budget analysis in Bangladesh, and in developing countries generally, operates under severe epistemological constraints that are rarely explicitly acknowledged. Revenue forecasts depend on assumptions about the behavioral responses of taxpayers and economic actors to fiscal changes, assumptions that are theoretically contested and empirically estimated with large uncertainty bands. Expenditure impact assessments depend on theories of public service delivery and human behavioral response that are necessarily simplified models of complex social phenomena. Macroeconomic projections embed theories about the dynamics of growth, inflation, and balance of payments adjustment that remain contested among professional economists.

Acknowledging these epistemological limitations does not license paralysis or false modesty about what quantitative analysis can contribute. It licenses epistemic humility: the recognition that fiscal knowledge is always provisional, always model-dependent, and always potentially wrong in ways that cannot be foreseen by the analysis itself. Policy-makers who treat fiscal model outputs as precise predictions rather than as structured ways of organizing uncertain information risk systematic errors of overconfidence.

27.2 Revenue Forecasting Methods: From Expert Judgment to Machine Learning

Revenue forecasting is the estimation of tax revenues for the coming fiscal year (and, in a medium-term framework, for the following two years) given projections of macroeconomic variables and assumptions about tax policy. The quality of revenue forecasting matters enormously for budget credibility: systematically optimistic forecasts generate deficits larger than the announced deficit and undermine fiscal planning.

Bangladesh's revenue forecasting, conducted within the NBR with support from the Finance Division, has historically been characterized by systematic optimism bias: NBR revenue targets have exceeded actual collections in most fiscal years over the past decade. The IMF's January 2026 Article IV noted that tax collections fell from 7.4 percent of GDP in FY24 to 6.9 percent in FY25, reflecting a pattern of shortfall relative to targets.

Several methodological approaches to revenue forecasting are used in different country contexts. At the basic level, Trend-Based Forecasting extrapolates past revenue performance, adjusted for expected changes in tax policy and macroeconomic conditions. The macro-buoyancy approach relates revenue growth to GDP growth through estimated elasticity coefficients: if VAT revenue has historically grown at 1.2 times the rate of nominal GDP, a forecast of 8 percent nominal GDP growth implies approximately 9.6 percent growth in VAT revenue. More sophisticated Structural Revenue Models estimate revenue by modeling the behavior of individual taxpayer segments, including registered filers by income bracket, VAT-registered businesses by sector, and import volumes by commodity category, producing a more granular forecast that can be reconciled with administrative data.

Machine learning approaches to revenue forecasting, using algorithms that identify patterns in large datasets of taxpayer behavior, macroeconomic indicators, and historical revenue data, have been implemented by several tax administrations in advanced economies including Canada and the UK. Their application in Bangladesh faces data quality and availability constraints, but the

potential for improved forecast accuracy, particularly in predicting compliance-sensitive components of revenue, is significant. The NBR's digital transformation program, if successfully expanded to cover more taxpayer interactions electronically, would generate the data infrastructure needed for machine learning-based revenue forecasting.

27.3 Computable General Equilibrium Models and Fiscal Impact Analysis

Computable General Equilibrium (CGE) models are mathematical representations of an entire economy in which the behavior of households, firms, and the government is modeled simultaneously, accounting for the interactions between different markets and sectors. CGE models are used in fiscal analysis to simulate the economy-wide effects of tax and expenditure changes, including effects on output, employment, prices, trade, and income distribution that cannot be captured by partial equilibrium analysis (which examines one market in isolation while holding all others constant).

For Bangladesh, CGE models have been developed and used by SANEM, the World Bank, and academic researchers to analyze the distributional effects of VAT policy changes, the growth impact of infrastructure investment, and the economy-wide consequences of trade liberalization. The Bangladesh Social Accounting Matrix (SAM), which provides the numerical data foundation for CGE models, has been periodically updated using household survey and national accounts data, though with significant lag.

Key methodological limitations of CGE models in the Bangladesh context include: the quality and recency of the underlying SAM data, which may not reflect recent structural changes in the economy; the behavioral parameter estimates (elasticities of substitution, labor supply responses, trade elasticities) that are critical to model results and are typically borrowed from international literature rather than estimated from Bangladesh-specific data; and the structural assumptions (market clearing, full employment, rational expectations) that may poorly approximate the actual functioning of Bangladesh's markets.

A new concept introduced here is the Behavioral Calibration Problem: the difficulty faced by fiscal modelers in estimating the behavioral parameters of their models from data on the actual economic environment they are modeling, rather than from theoretical assumptions or parameter values estimated in different countries or periods. The Behavioral Calibration Problem is most severe in developing economy models where data are limited, markets are imperfect, and behavioral responses to fiscal changes may be qualitatively different from what theory predicts.

27.4 DSGE Models and Bangladesh Fiscal Analysis

Dynamic Stochastic General Equilibrium (DSGE) models, which add explicit intertemporal optimization and stochastic (random) shocks to the general equilibrium framework, have become the standard analytical tool in central banks and ministries of finance in advanced economies. They are used to analyze how fiscal shocks (tax changes, spending increases, deficit financing) propagate through the economy over time, taking into account the forward-looking behavior of economic agents who adjust their decisions based on expectations about future fiscal and monetary policy.

Bangladesh Bank has developed a DSGE model for monetary policy analysis, though its use in fiscal policy analysis has been limited. The main conceptual value of the DSGE framework for Bangladesh's fiscal analysis is its emphasis on expectations and intertemporal dynamics: the effect of a tax change today depends not only on its immediate impact on behavior but on how economic agents expect it to affect future policy, a consideration that is particularly important for investment decisions that depend on multi-year expectations about the fiscal environment.

The main practical limitation of DSGE models for Bangladesh is their demanding data requirements and the complexity of estimation procedures that require substantial econometric capacity. The Finance Division and NBR do not currently have staff with the econometric training needed to maintain and use DSGE models for policy analysis. This is not a critique of Bangladesh's capacity relative to some ideal standard; even many middle-income countries do not maintain in-house DSGE modeling capacity. It is an observation about the appropriate level of methodological ambition in Bangladesh's current analytical toolkit, and about the value of building econometric capacity within government agencies over the medium term.

27.5 Social Accounting Matrix and Distributional Fiscal Analysis

The Social Accounting Matrix (SAM) is a comprehensive representation of economic flows within an economy in a given period, capturing the transactions among households, firms, the government, and the rest of the world in a format that satisfies accounting consistency (total income equals total expenditure for each actor). SAMs are the empirical foundation for CGE models and can also be used directly for multiplier analysis and incidence analysis without a full CGE specification.

For distributional fiscal analysis, the SAM's household sector disaggregation is critical. A SAM that distinguishes households by income quintile, urban/rural location, and employment type enables the analyst to trace who receives the income from different sources and who bears the burden of different taxes, producing a distributional incidence analysis that shows how the budget's taxes and transfers affect different household groups.

SANEM's SAM-based research on Bangladesh has produced some of the most rigorous distributional analyses of fiscal policy available in the literature. Key findings from recent SANEM work include the confirmation that Bangladesh's VAT system is regressive in its distributional incidence, that agricultural subsidies are captured disproportionately by larger landholders, and that social protection transfers, while broadly targeted toward lower-income groups, are insufficient in scale to significantly reduce poverty or inequality.

A new methodology worth noting is the Fiscal Incidence Benefit Analysis (FIBA): an integrated framework that combines revenue incidence analysis (who bears the burden of taxes) with expenditure benefit analysis (who benefits from public spending), producing a net fiscal incidence estimate that shows the overall distributional effect of the budget. When applied to Bangladesh, FIBA estimates consistently show that the budget is mildly redistributive in aggregate (the poor receive more in services and transfers than they pay in taxes), but the redistributive effect is far smaller than in countries with more progressive tax systems and more adequate social protection.

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27.6 Debt Sustainability Analysis: Methodology and Application to Bangladesh

Debt Sustainability Analysis (DSA) is the systematic assessment of whether a country's current and projected debt path is sustainable, defined as the ability to service debt obligations without requiring exceptional fiscal adjustments or defaulting. The IMF and World Bank's Low-Income Country DSA framework applies to Bangladesh as a developing economy and includes both external debt sustainability (analyzing the trajectory of external debt relative to export earnings and GDP) and public debt sustainability (analyzing the trajectory of total public debt relative to GDP and revenue).

The mechanics of DSA involve projecting debt dynamics forward using the debt accumulation equation: the change in debt-to-GDP ratio in any period equals the primary deficit (expenditure minus revenue before interest payments, as a share of GDP) plus the interest-growth differential (the difference between the real interest rate on debt and the real GDP growth rate, multiplied by the existing debt stock, as a share of GDP). When the real interest rate exceeds the real growth rate and the primary deficit is non-zero, debt tends to grow as a share of GDP without limit, an unsustainable trajectory.

For Bangladesh as of early 2026, the key DSA parameters are: public debt at approximately 35 to 38 percent of GDP, a primary deficit of approximately 1 to 1.5 percent of GDP, domestic borrowing at interest rates that have risen with the monetary tightening cycle, external debt on loan terms that are transitioning from concessional to non-concessional as Bangladesh approaches LDC graduation, and real GDP growth at 3.7 percent in FY2025 with recovery projected to 4.7 percent in FY2026.

The IMF's DSA assessment classifies Bangladesh at "moderate risk" of debt distress, reflecting that while the baseline trajectory is sustainable, downside scenarios involving lower growth, higher interest rates, or failure to implement fiscal reforms could push the debt trajectory toward unsustainability. The "repayment cliff" created by loans contracted in the 2015-2022 period as their grace periods expire in the late 2020s and early 2030s is a specific risk concentration that warrants active management through liability management operations, including potential refinancing of short-duration or variable-rate obligations and exploration of debt-for-development swaps.

27.7 Universal Budget Research Methods: A Comprehensive Framework

A comprehensive framework for budget research in Bangladesh involves five methodological tiers that should ideally be used in combination, each addressing different questions and each with specific strengths and limitations.

Tier One is Descriptive Fiscal Analysis: the systematic description and comparison of budget allocations across time, sectors, and administrative levels, using the official budget documents, supplementary budget data, and implementation reports available from the Finance Division, Planning Commission, and line ministries. This is the foundational tier of budget research, establishing what the budget actually allocates and how this compares to previous years, stated priorities, and international benchmarks.

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Tier Two is Macroeconomic Consistency Analysis: the examination of whether the fiscal framework is internally consistent (do the revenue targets, expenditure plans, and financing strategies add up correctly?) and externally consistent (are the macroeconomic assumptions underlying the budget, including GDP growth, inflation, and the exchange rate, reasonable given current conditions?). The IMF's Article IV consultation and World Bank country reports provide the main external reference points for macroeconomic consistency analysis.

Tier Three is Political Economy Analysis: the examination of the political factors that shape budget allocation, including electoral cycles, lobbying, bureaucratic incentives, and the balance of power among different institutional actors. This tier draws on qualitative methods including interviews, document analysis, and comparative political economy frameworks, as well as quantitative methods including analysis of how budget allocations respond to electoral cycles and constituency characteristics.

Tier Four is Distributional Incidence Analysis: the assessment of how the burden of taxes and the benefits of public expenditure are distributed across different population groups, using household survey data, national accounts, and SAM-based analytical frameworks. This tier answers the fundamental equity question: who pays and who benefits?

Tier Five is Impact Evaluation: the use of rigorous causal inference methods, including randomized controlled trials, natural experiments, difference-in-differences, and regression discontinuity designs, to estimate the actual causal effect of specific budget programs on human welfare outcomes. This is the most demanding methodological tier, requiring data, analytical capacity, and time that are often unavailable for policy-relevant timescales, but provides the most credible evidence on program effectiveness.

A new concept introduced here is the Evidence Hierarchy of Fiscal Research: the ordering of budget research methodologies by their causal credibility, from Tier One (descriptive) to Tier Five (experimental), with the recognition that different policy questions require different tiers and that the highest tier is not always the most appropriate for the question at hand. Policymakers who demand randomized controlled trial evidence before acting on budget decisions will be systematically slow to respond to evidence that exists but is of lower causal credibility; policymakers who act on descriptive evidence alone without examining causal mechanisms will systematically misattribute effects and misallocate resources.

27.8 Exam Questions: Chapter Twenty-Seven

Questions for BEcon Examination

Define Fiscal Epistemics and explain why it is important for understanding the limitations of budget analysis. How should policy-makers account for epistemological uncertainty in their use of fiscal model outputs? (15 marks)

Explain the macro-buoyancy approach to revenue forecasting. Given Bangladesh's historical VAT buoyancy and the FY2026 macroeconomic projections, estimate the expected VAT

revenue for FY2026-27 assuming 8.5 percent nominal GDP growth. What are the main sources of uncertainty in your estimate? (20 marks)

Define the Behavioral Calibration Problem in fiscal modeling. Why is this problem particularly severe in CGE models applied to Bangladesh? What data collection investments would reduce its severity? (15 marks)

Questions for BSS (Economics) Examination

Explain the debt accumulation equation used in Debt Sustainability Analysis. Apply it to Bangladesh's current fiscal parameters to assess the trajectory of debt-to-GDP over the next five years under the IMF's baseline scenario. What change in the primary deficit would be needed to stabilize the debt ratio? (20 marks)

Describe the five-tier Universal Budget Research Framework. For each tier, identify one recent research study or institutional report that uses that methodology in the Bangladesh context and briefly summarize its findings. (15 marks)

Explain the Fiscal Incidence Benefit Analysis (FIBA) methodology. What is Bangladesh's estimated net fiscal incidence, and what would an incidence analysis consistent with the Rawlsian difference principle require? (12 marks)

Questions for MSS (Economics) Examination

Design a comprehensive research program to evaluate the welfare impact of Bangladesh's Annual Development Programme over the 2026-2031 period. Specify the research questions, methodological approaches for each question, data requirements, institutional arrangements, and how findings would feed into the budget process. Address the trade-offs between methodological rigor and policy relevance in your design. (35 marks)

Using the DSA methodology, construct a debt sustainability analysis for Bangladesh under three scenarios: (1) the IMF baseline of gradual fiscal improvement; (2) a pessimistic scenario of continued revenue shortfall and slower growth; and (3) an optimistic scenario of successful structural reform. For each scenario, calculate the projected debt-to-GDP ratio in 2030 and assess sustainability. What policy implications follow from the comparison of scenarios? (30 marks)

CHAPTER TWENTY-EIGHT: THE DRAFT BUDGET FY2026-27: ARCHITECTURE, REASONING, AND THE PHILOSOPHY OF ACHIEVABLE TRANSFORMATION

28.1 A New Philosophy: Achievable Transformation

The philosophy that should guide the FY2026-27 budget is neither the cautious minimalism of fiscal consolidation nor the rhetorical expansionism of developmental aspiration without fiscal foundation. It is Achievable Transformation: the doctrine that budget design should be

simultaneously ambitious in its developmental vision and grounded in institutional reality, proposing changes that are large enough to matter but calibrated to what the fiscal administration can actually collect, the implementing agencies can actually spend effectively, and the macroeconomic environment can absorb without instability.

Achievable Transformation rejects both the false modesty of budget conservatism that fails to make the investments Bangladesh's development requires and the false ambition of budget gigantism that proposes larger numbers than the institutional system can convert into outcomes. It demands honest revenue forecasting, realistic ADP sizing, progressive revenue architecture, and protection of the highest-return developmental investments even within a constrained fiscal envelope.

This philosophy has specific implications for FY2026-27 that emerge from everything this textbook has established about Bangladesh's fiscal situation. Revenue must grow not through arbitrary target-setting but through specific, institutionally grounded reforms. Expenditure must be restructured toward higher developmental return, not simply redistributed within existing patterns. The deficit must be managed at a level consistent with debt sustainability while preserving the investment in human capital and physical infrastructure that the growth trajectory requires.

28.2 The Macroeconomic Context for FY2026-27: Setting the Scene

Planning for the FY2026-27 budget, which would be presented in June 2026, takes place in a macroeconomic environment of considerable complexity.

GDP growth in FY2025 decelerated to 3.7 percent, the lowest in over a decade outside the COVID-19 period. The IMF projects recovery to 4.7 percent in FY2026, with gradual acceleration toward 6 percent over the medium term conditional on successful implementation of fiscal and banking sector reforms. Inflation, projected at 8.9 percent in FY2026, remains well above the Bangladesh Bank's target band and represents the most severe welfare concern for low-income households, who face real wage erosion and reduced purchasing power.

Bangladesh's foreign exchange reserves, measured in net terms (excluding foreign currency borrowings from foreign banks counted in gross reserves), have gradually recovered from their 2023 lows but remain below comfortable buffer levels. The NIR (Net International Reserves) is projected to reach approximately USD 26 billion at end-June 2026, covering approximately 3.9 months of imports, above the IMF's conventional 3-month floor but below the 4 to 6 months that provides comfortable buffer against external shocks.

The IMF's Extended Credit Facility arrangement, which provides both financial support and a reform framework, continues to impose conditionalities on fiscal policy. The fourth and fifth tranches of the program were conditional on, among other things, raising the tax-to-GDP ratio, which Bangladesh has so far failed to achieve. The IMF's January 2026 Article IV was explicit that achieving middle-income status requires restoring lasting macroeconomic and financial stability and implementing bold reforms to strengthen institutions and foster job creation.

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Initial Finance Division projections for FY2026-27 put the proposed budget at around Tk 930,000 crore, with a deficit of approximately Tk 235,000 crore. The government plans to borrow approximately Tk 119,000 crore from domestic sources and Tk 116,000 crore from external sources, an increase of approximately Tk 35,000 crore (17.5 percent) from the current fiscal year. Interest payments alone may reach Tk 142,000 crore, including Tk 115,000 crore for domestic debt and Tk 27,000 crore for external obligations.

An NBR revenue deficit of nearly Tk 100,000 crore in the first nine months of FY2025-26, the highest on record, establishes the fiscal backdrop: the government has borrowed from the banking system in excess of its annual target simply to manage current fiscal year cash flow.

28.3 Draft Revenue Framework for FY2026-27

The draft revenue framework for FY2026-27 must be built on realistic rather than aspirational projections, learning from the persistent pattern of revenue shortfall that has plagued recent fiscal years.

NBR Revenue: A realistic NBR revenue target for FY2026-27 should start from the revised FY2025-26 base (approximately Tk 440,000 to 460,000 crore, given the shortfall relative to the original Tk 499,000 crore target) and apply a growth rate consistent with projected nominal GDP growth and realistically achievable compliance improvements. A growth rate of 12 to 15 percent from the revised base would yield an NBR revenue target of approximately Tk 490,000 to 530,000 crore, substantially below the announced FY2025-26 target but more consistent with institutional capacity. This range, if achieved, would represent meaningful progress and provide a solid foundation for subsequent years.

The specific revenue policy changes that would support this target include: first, rationalization of VAT exemptions to bring additional goods and services into the standard VAT net, with careful protection of genuinely essential goods consumed primarily by low-income households; second, strengthened transfer pricing enforcement, beginning with the top 500 large taxpayers, which would require additional trained staff in the Large Taxpayer Unit and upgraded data systems for international information exchange; third, property tax reform within the urban local government system, updating assessed values to reflect market realities and strengthening collection; fourth, carbon pricing on petroleum products at a modest initial rate that both generates revenue and sends a price signal toward cleaner energy choices; and fifth, systematic expansion of the active taxpayer base by 15 to 20 percent, targeting specific professional categories (doctors, lawyers, architects, consultants) where income is known from licensing registration but tax compliance is poor.

Non-Tax Revenue: Non-tax revenue, primarily from state enterprise dividends, administrative fees, and the profit transfer from Bangladesh Bank, has been a volatile and declining source in recent years. Realistic non-tax revenue for FY2026-27 should be projected at approximately Tk 60,000 to 65,000 crore, with specific measures to improve state enterprise financial performance and dividend transfer mechanisms.

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Total Revenue Target: Combining NBR and non-tax revenue, a realistic total revenue target for FY2026-27 is approximately Tk 550,000 to 595,000 crore, representing approximately 9 percent of projected GDP. This would represent modest but genuine improvement from the current year's performance and is consistent with the MLTRS trajectory toward 10.5 percent by FY2035.

28.4 Draft Expenditure Framework for FY2026-27

Total Expenditure: The initial Finance Division projection of Tk 930,000 crore for total expenditure, combined with the revenue framework above, implies a deficit of Tk 335,000 to 380,000 crore, which at approximately 4 to 5 percent of projected GDP exceeds the IMF program target. A more fiscally sustainable total expenditure framework would be approximately Tk 870,000 to 890,000 crore, yielding a deficit of approximately 3.5 to 4 percent of GDP.

Operating (Non-Development) Expenditure: The operating budget should grow at approximately 10 to 12 percent from the FY2025-26 level, primarily to accommodate growth in civil service salaries following the recently announced pay revisions, rising debt service obligations (interest payments reaching Tk 142,000 crore as projected), and expanded social protection allocations. Within the operating budget, the key priority is protecting and modestly expanding social protection adequacy, which requires increasing the Old Age Allowance from Tk 600 per month to at minimum Tk 1,200 per month and expanding coverage to approximately 10 percent of those over 65.

The operating budget's largest single pressure point is debt service. With interest payments alone projected at Tk 142,000 crore, representing approximately 15 percent of total proposed expenditure and 26 percent of total revenue, the fiscal space for discretionary spending, including health, education, and social protection, is severely constrained. This reality must be confronted directly in the budget framing rather than obscured by headline budget totals.

Health and Education: The most important structural change needed in FY2026-27's expenditure framework is a meaningful increase in the share of GDP allocated to health and education. A phased plan should target health at 1.2 percent of GDP by FY2026-27 (up from 0.85 to 0.9 percent currently) and education at 2.0 percent of GDP (up from 1.72 percent currently). These are not yet at international benchmark levels, but they represent real progress within a constrained fiscal envelope and send an important signal about development priorities.

Social Protection: Total social protection spending should increase to target genuine adequacy for the poorest quintile. The National Social Registry, when completed, should enable more efficient targeting that expands coverage without proportional cost increase.

Annual Development Programme: The ADP for FY2026-27 should be set at approximately Tk 250,000 to 260,000 crore, modestly above the FY2025-26 level of Tk 230,000 crore, but with a fundamental restructuring of project portfolio composition. The number of projects should be reduced to approximately 800 to 900, concentrating resources on completing existing projects (completion-first principle) before initiating new ones, with all projects funded at a minimum of 60 percent of their annual work program requirements to enable genuine implementation progress.

The highest-priority ADP sectors for FY2026-27, based on developmental return analysis, are: rural and peri-urban road connectivity (highest economic return per taka in rural infrastructure); renewable energy deployment (essential for energy security and the fiscal transition away from LNG subsidy dependence); water and sanitation infrastructure (highest public health return); and digital government infrastructure (enabling the revenue, transparency, and service delivery improvements that support the entire reform agenda).

28.5 Deficit and Financing Strategy for FY2026-27

Target Deficit: 3.5 percent of GDP, equivalent to approximately Tk 215,000 to 225,000 crore at projected FY2026-27 GDP. This represents fiscal consolidation from the current trajectory while preserving developmental investment.

Domestic Financing: Approximately Tk 100,000 to 110,000 crore from domestic sources, primarily the banking system through treasury securities. This level of domestic borrowing, while significant, is consistent with maintaining credit availability for the private sector, provided Bangladesh Bank conducts appropriate open market operations to manage liquidity.

External Financing: Approximately Tk 110,000 to 120,000 crore from external sources, primarily multilateral concessional financing from the World Bank, Asian Development Bank, Japan International Cooperation Agency, and continued IMF program disbursements. The key fiscal management challenge in external financing is managing the transition from predominantly concessional to increasingly non-concessional borrowing as Bangladesh's LDC graduation approaches. Every external borrowing decision must now explicitly account for the long-run debt service implications of the financing terms, with a strong preference for grant and highly concessional financing for social sector programs.

28.6 The Special Allocation: Banking Sector Reform

The FY2026-27 budget should include a specific allocation for banking sector restructuring, informed by completed asset quality reviews of all systemic and state-owned banks as called for by the IMF's January 2026 Article IV. The scale of this allocation depends on the findings of the asset quality reviews, which must be completed before the budget presentation, but could reasonably range from Tk 15,000 to 30,000 crore, structured as a contingent liability with specific resolution milestones required for disbursement.

This banking sector allocation is not discretionary generosity toward failed institutions. It is a necessary fiscal cost of stabilizing the financial system on which monetary policy transmission, private sector credit, and public debt management all depend. The moral hazard of bank bailouts must be managed by conditioning support on credible management changes, creditor burden-sharing where legally feasible, and prosecution of those responsible for the failures.

28.7 Why the Draft Budget is Reasonable: A Normative and Technical Assessment

The draft FY2026-27 budget framework proposed in this chapter is reasonable on six grounds.

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First, it is fiscally honest. Its revenue targets are based on specific, institutionally grounded reform measures rather than arbitrary growth assumptions. Its expenditure framework explicitly acknowledges the debt service burden and designs around it rather than presenting headline totals that obscure fiscal space constraints.

Second, it is developmentally coherent. The proposed increase in health and education shares of GDP, even if modest, establishes a trend toward the international standards that Bangladesh's development level requires. The ADP restructuring toward completion-first and higher funding adequacy per project addresses the most important structural weakness in the development program.

Third, it is distributionally defensible. The revenue architecture reforms proposed, including VAT exemption rationalization with protection of essentials, property tax reform, and carbon pricing, collectively improve the structural progressivity of the tax system. The social protection adequacy improvements protect the most vulnerable from the worst effects of fiscal tightening.

Fourth, it is macroeconomically consistent. The 3.5 percent deficit target is consistent with debt sustainability under the IMF's baseline scenario, and the revenue projection is consistent with projected nominal GDP growth and realistic compliance improvements. The financing strategy avoids excessive domestic borrowing that would crowd out private credit at a time when private investment recovery is needed for growth.

Fifth, it is institutionally realistic. The reform measures proposed are ones that the existing institutional infrastructure, with targeted capacity investments, can plausibly implement within the fiscal year. The budget does not depend on institutional transformations that take years to achieve, but it does create the fiscal space and political momentum for those transformations to proceed.

Sixth, it is IMF-program compatible. The 3.5 percent deficit target, the specific revenue measures including VAT rationalization and carbon pricing, and the banking sector allocation are all consistent with the structural benchmarks and performance criteria of Bangladesh's ongoing ECF arrangement, positioning Bangladesh for continued program disbursements and the multilateral financing that depends on IMF program status.

28.8 What a Good Budget Cannot Do: The Limits of Fiscal Policy

Honesty demands concluding this chapter by acknowledging what even a well-designed budget cannot do.

A budget cannot substitute for judicial reform. Bangladesh's fiscal accountability failures reflect, in part, a judicial system that is slow, expensive, and inadequate for complex financial crime prosecution. The best anti-corruption architecture in the budget cannot achieve its purpose if the courts cannot handle complex financial crimes effectively.

A budget cannot resolve political economy problems through technical design alone. The political economy of tax avoidance, project fraud, and banking sector capture reflects underlying

distributions of power that fiscal design can constrain but not eliminate. Political will, expressed through sustained leadership commitment to accountability and reform across electoral cycles, is a prerequisite for which fiscal design is only the enabling condition.

A budget cannot create capabilities that the education system has failed to develop. Bangladesh's human capital deficit, documented in learning outcome data showing that a majority of primary students cannot read or perform arithmetic at grade level, reflects decades of education budget inadequacy. Increasing the education budget in FY2026-27 begins the correction but cannot complete it within a year or even a decade.

A budget cannot manage climate risk alone. Bangladesh's deep exposure to the fiscal consequences of climate change, including infrastructure damage from cyclones and flooding, agricultural disruption from temperature and rainfall change, and sea-level rise threatening coastal areas, requires not only the budget provisions discussed in Part Three but a comprehensive climate adaptation and transition strategy that engages every sector of the economy and every level of government.

These limits are not counsel for despair. They are the honest framing within which the achievable transformation that a good budget can deliver should be understood. The budget is a powerful instrument but not an omnipotent one. It must be part of a comprehensive reform agenda, not a substitute for one.

28.9 Exam Questions: Chapter Twenty-Eight

Questions for BEcon Examination

Define the philosophy of Achievable Transformation. How does it differ from both fiscal conservatism and budget gigantism? Apply it to evaluate the draft FY2026-27 budget framework proposed in this chapter. (15 marks)

Using the debt accumulation equation, assess whether the proposed 3.5 percent deficit target for FY2026-27 is consistent with debt sustainability. What assumptions about GDP growth, inflation, and interest rates does your assessment depend on? (20 marks)

Explain why the FY2026-27 budget should include a specific banking sector restructuring allocation. What conditions should govern the disbursement of this allocation to minimize moral hazard? (15 marks)

Identify three things that a budget cannot do, regardless of its design quality. For each, explain why and what other policy instruments or institutional changes are needed to complement fiscal policy. (10 marks)

Questions for BSS (Economics) Examination

Evaluate the draft revenue framework for FY2026-27 on grounds of fiscal honesty, feasibility, and distributional impact. Which of the proposed revenue measures would you prioritize and why? (15 marks)

Construct the fiscal argument for raising Bangladesh's health budget from 0.85 to 1.2 percent of GDP in FY2026-27. Where would the fiscal space come from, and how should the additional resources be allocated within the health budget to maximize welfare impact? (15 marks)

Explain why the completion-first principle for ADP project selection improves fiscal efficiency. How would implementing this principle change the FY2026-27 ADP relative to the current ADP? What political economy resistance would it face? (12 marks)

Questions for MSS (Economics) Examination

Drawing on everything covered in this textbook, construct a comprehensive normative framework for evaluating whether any national budget is "reasonable." Apply this framework to the draft FY2026-27 budget framework proposed in this chapter, identifying where it satisfies the framework's criteria and where it falls short. Propose specific modifications that would make the budget more fully reasonable by your framework's standards. (35 marks)

Critically assess the IMF's role in Bangladesh's fiscal policy over the 2023-2026 period. Has the Extended Credit Facility arrangement improved or worsened Bangladesh's long-term fiscal prospects? What modifications to the program conditionality would better align IMF engagement with Bangladesh's developmental priorities, consistent with the philosophy of Sovereign Developmental Fiscalism and the Doctrine of Developmental Revenue Sovereignty introduced in this textbook? (30 marks)

Design a research agenda for the next decade of fiscal analysis in Bangladesh, identifying the five most important unanswered questions in Bangladesh's public finance and specifying the methodological approaches, data requirements, and institutional arrangements needed to address them. (25 marks)

PART FOUR: CONCLUDING SYNTHESIS

Part Four has covered terrain that is simultaneously technical and deeply political, simultaneously historical and urgently contemporary. The seven investigative chapters have built a composite picture of a fiscal system that is neither simply broken nor simply functional but caught between its genuine developmental achievements and the structural deficiencies that constrain what those achievements can become.

The revenue architecture chapter established that Bangladesh's fiscal metabolism is structurally weak, that the tax-to-GDP ratio reflects not mere administrative failure but deep political-economic choices about who bears fiscal burdens, and that meaningful reform requires

confronting the political economy of tax avoidance by powerful actors rather than simply adjusting rates and targets.

The philosophy chapter offered new frameworks, Sovereign Developmental Fiscalism, Achievable Transformation, Institutional Fiscal Structuralism, and Capability Returns Assessment, for thinking about what fiscal policy should be trying to achieve in a post-colonial developing economy that cannot simply reproduce the institutional histories of wealthier states.

The media and discourse chapter illuminated the fiscal public sphere as a domain that both enables democratic accountability and creates distortions that complicate it, and identified the Principle of Fiscal Information Equity as a design principle for making public fiscal communication genuinely democratic rather than formally so.

The accountability chapter confronted Bangladesh's most significant fiscal governance failures directly, including the NPL crisis, the banking sector capture cases, and systematic ADP fraud, and identified both the institutional reforms needed and the political conditions required for those reforms to succeed.

The public health chapter made the case that medical fiscal architecture is among the most consequential and most neglected dimensions of Bangladesh's fiscal system, with the OOP catastrophe crisis, the mental health deficit, and the TRIPS pharmaceutical transition all requiring urgent fiscal attention.

The legislative chapter developed the principle of Deliberative Fiscal Democracy and the doctrine of Fiscal Policy Pluralism, arguing that the quality of fiscal decision-making depends not only on the technical capacity of the budget-makers but on the institutional arrangements through which different knowledge claims and value perspectives are brought into the deliberative process.

The modeling chapter provided a rigorous grounding in the quantitative methods through which fiscal claims are established and contested, introducing the concept of Fiscal Epistemics as a reminder that all budget analysis is provisional, model-dependent, and subject to the epistemological constraints of the data and theories through which it is produced.

And the draft budget chapter translated these analytical frameworks into a concrete, defensible, and achievable fiscal plan for FY2026-27, grounded in the philosophy of Achievable Transformation and evaluated against the six criteria of fiscal honesty, developmental coherence, distributional defensibility, macroeconomic consistency, institutional realism, and IMF program compatibility.

Five broader intellectual contributions of Part Four deserve explicit acknowledgment as this synthesis concludes.

The first is the consistent insistence that fiscal analysis must be simultaneously technical and political. Numbers without context are not knowledge. Institutional descriptions without power analysis are not understanding. Revenue projections without political economy analysis of who

resists reform and why are not realistic. This textbook has attempted throughout to hold the technical and political dimensions together, and Part Four has been most explicit about this insistence.

The second is the development of a suite of new concepts, principles, and doctrines that extend the existing vocabulary of public finance in directions relevant to Bangladesh's specific situation: Revenue Architecture Fragmentation, the OOP Catastrophe Threshold, the Principle of Epidemiological Fiscal Anticipation, Deliberative Fiscal Democracy, Fiscal Epistemics, the Universal Budget Research Framework, Achievable Transformation, the Doctrine of Pharmaceutical Fiscal Transition, and the Fiscal Implementation Accountability Gap, among others.

The third is the sustained comparative perspective. Bangladesh does not exist in an analytical vacuum. The experiences of Thailand on UHC financing, South Korea on procurement transparency, Rwanda on performance accountability, Brazil on fiscal responsibility legislation, and the Nordic countries on social contract taxation all offer lessons that must be adapted to Bangladesh's specific institutional context but are genuinely illuminating.

The fourth is the honest acknowledgment of limits, both of fiscal policy as an instrument and of the analysis in this textbook. Knowledge in the social sciences is always incomplete, always contested, and always capable of improvement. Students who approach the frameworks offered here as provisional tools for clearer thinking, rather than as finished truths, will use them most productively.

The fifth is the argument for hope without naivety. Bangladesh has achieved extraordinary development progress under difficult conditions. Its fiscal system, for all its structural deficiencies, has financed dramatic reductions in poverty, significant improvements in health and education, and transformative infrastructure investments over five decades. The task ahead, improving the revenue architecture, closing the accountability vacuum, strengthening the medical fiscal system, making the legislature a genuine deliberative institution, and building the analytical capacity for evidence-based fiscal governance, is large but not impossible. Part Five will turn to the governance reform agenda that makes these achievements possible.

APPENDIX TO PART FOUR: GLOSSARY OF NEW TERMS AND CONCEPTS

Revenue Architecture: The totality of structural relationships, institutional actors, legal instruments, behavioral norms, and information systems through which a state transforms economic activity into public resources, including both collection mechanisms and their distributional, incentive, and dynamic effects.

Revenue Architecture Fragmentation: The condition in which a state's revenue-gathering apparatus is divided across multiple overlapping institutional mandates, legal frameworks, and information systems that cannot communicate effectively, creating systematic gaps in revenue assessment, collection, and enforcement.

Principle of Structural Fiscal Progressivity: The proposition that a just revenue architecture must be progressive not merely in its statutory rate schedule but in its effective incidence, such that higher-income groups bear a higher share of the total fiscal burden than lower-income groups after accounting for all exemptions, avoidance mechanisms, and compliance patterns.

Doctrine of Developmental Revenue Sovereignty: The principle that developing economies have a special claim to prioritize the integrity of their domestic revenue base against international tax avoidance practices, and that international tax cooperation frameworks must be designed with the institutional realities of low-capacity administrations in mind.

Fiscal Metabolism: The rate at which an economy converts economic activity into government revenue, adjusted for economic composition, compliance capacity, and tax expenditure commitments.

Sovereign Developmental Fiscalism: The philosophical framework holding that fiscal policy in a developing post-colonial economy must simultaneously serve fiscal sovereignty, developmental transformation, and social contract fulfillment.

Achievable Transformation: The doctrine that budget design should be simultaneously ambitious in developmental vision and grounded in institutional reality, proposing changes that are large enough to matter but calibrated to what the system can actually collect, spend effectively, and absorb without instability.

Principle of Capability Returns Assessment: The requirement that budget allocations in social sectors be evaluated against measurable capability outcomes rather than input and output metrics alone.

Transformative Fiscal Consolidation: A deficit reduction strategy that prioritizes revenue enhancement over expenditure reduction, protecting social and developmental spending while requiring higher contributions from those with the greatest fiscal capacity.

Institutional Fiscal Structuralism: The doctrine that fiscal policy in developing economies must explicitly address structural institutional deficiencies, including power concentration, exclusion of marginalized groups, and weak institutional foundations, rather than assuming these structures as given.

Fiscal Public Sphere: The networked domain of communication through which citizens, experts, political actors, civil society, and media collectively construct meaning around public finance in ways that constitute a form of distributed democratic oversight.

Fiscal Journalism Depth Index: A measure of the extent to which media coverage of the national budget addresses pre-budget consultation quality, structural analysis, implementation monitoring, and accountability reporting, weighted by reach and audience diversity.

Principle of Fiscal Information Equity: The requirement that governments make budget information available in formats accessible to citizens across the full range of literacy, language, and digital access.

Doctrine of Fiscal Reckoning: The principle that fiscal system integrity depends on credible accounting, investigative, and enforcement mechanisms through which abuses are identified, disclosed, and consequentially sanctioned.

Fiscal Implementation Accountability Gap: The systematic distance between fiscal commitments made in the budget and outcomes achieved in implementation, measured as a function of outcome quality, allocation appropriateness, and procurement integrity.

Medical Fiscal Architecture: The integrated system of public financing mechanisms, institutional actors, policy instruments, and incentive structures through which a state funds health services, distributes financing burden, and builds institutional resilience for health emergencies.

OOP Catastrophe Threshold: The level of out-of-pocket health expenditure at which a household's health care costs exceed 40 percent of non-food consumption expenditure, creating catastrophic health expenditure.

Principle of Epidemiological Fiscal Anticipation: The requirement that health budget allocations include explicit provisions for maintaining and strengthening the surveillance, laboratory, communication, and surge capacities needed to detect and respond to emerging infectious disease threats.

Doctrine of Pharmaceutical Fiscal Transition: The principle that LDC graduation should not be allowed to create a pharmaceutical access cliff, and that the fiscal and regulatory architecture for managing the pharmaceutical transition should be explicitly planned and resourced before the graduation date.

One Health Fiscal Multiplier: The ratio of the reduction in total health system costs achieved by a given investment in integrated One Health programs, relative to the cost of that investment, reflecting returns across multiple budget domains simultaneously.

Deliberative Fiscal Democracy: The principle that legitimate budget decisions require not merely formal parliamentary approval but genuine informed deliberation in which affected populations have meaningful opportunities to contribute information, raise objections, and receive substantive responses.

Post-Appropriation Fiscal Accountability Cycle: The institutional loop through which CAG audit findings are reviewed by the PAC, recommendations are issued to ministries, ministries respond, and the PAC assesses response adequacy in subsequent sessions.

Doctrine of Fiscal Policy Pluralism: The principle that budget policy-making should ensure the range of perspectives, evidence, and interests informing fiscal decisions is genuinely plural,

including research-based analytical voices and civil society representing marginalized populations.

Fiscal Epistemics: The study of how knowledge about fiscal systems is produced, validated, contested, and applied, including the systematic biases, errors, and omissions characterizing different modes of fiscal knowledge production.

Behavioral Calibration Problem: The difficulty faced by fiscal modelers in estimating behavioral parameters from data on the actual economic environment, rather than from theoretical assumptions or values estimated in different countries or periods.

Evidence Hierarchy of Fiscal Research: The ordering of budget research methodologies by causal credibility, from descriptive through macroeconomic consistency, political economy, distributional incidence, to experimental evaluation.

Fiscal Incidence Benefit Analysis: An integrated framework combining revenue incidence analysis (who bears tax burden) with expenditure benefit analysis (who benefits from spending), producing net fiscal incidence estimates showing the overall distributional effect of the budget.

PART FIVE: GOVERNANCE REFORM, INSTITUTIONAL TRANSFORMATION, AND BANGLADESH'S FISCAL FUTURE IN A WORLD OF CRISIS AND CONVERGENCE

Preface to Part Five

Part Four ended with an honest acknowledgment: even the most technically elegant budget is only an instrument, and instruments require hands capable of holding them. The hands belong to institutions, and institutions are built from the material of human incentive, organizational culture, political will, and the accumulated weight of history. Part Five turns to the question of those hands directly. It asks not merely what Bangladesh's budget should contain but what kind of governance architecture must surround and support the budget if its contents are to be transformed from aspirational text into lived reality.

This Part moves across seven major areas of investigation. The first is governance reform itself: what it means, why it is perpetually promised and insufficiently delivered, and what the most credible institutional pathways toward genuine fiscal accountability look like. The second is the relationship between the banking system and the budget, an interface that the crises of 2022 to 2026 have made impossible to analyze in isolation from either domain. The third is the digital transformation of fiscal governance, which represents the most powerful available technology for closing the implementation gap between budget intention and outcome. The fourth is comparative budget architecture, drawing lessons from countries whose fiscal governance trajectories offer genuinely transferable insights for Bangladesh. The fifth is crisis assessment methodology: how governments should formally evaluate national and international emergencies in fiscal terms and translate those evaluations into emergency budget protocols. The sixth is

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education finance, a sector whose fiscal architecture has structural failures more severe than its nominal allocations suggest. The seventh is climate finance and the green fiscal transition, which has moved from an environmental policy conversation to a central fiscal governance challenge as Bangladesh confronts its position as one of the world's most climate-vulnerable economies.

Throughout all seven areas, this Part continues the textbook's defining commitment: to offer original frameworks rather than recycled ones, to define terms in ways that reflect what is now known rather than what was written when today's textbooks were first conceptualized, and to situate Bangladesh's specific experience within a genuinely global analytical frame that neither flatters the country nor diminishes it.

CHAPTER TWENTY-NINE: GOVERNANCE REFORM AND THE ARCHITECTURE OF FISCAL ACCOUNTABILITY

29.1 Rethinking Governance Reform: The Concept of Fiscal Institutional Metabolism

The word "reform" has been used so frequently in development discourse that it has nearly lost its analytical content. In budget policy discussions, reform typically means one of three things: institutional restructuring (changing who does what), procedural reform (changing how decisions are made), or incentive reform (changing the rewards and penalties that shape behavior). The problem is that most reform programs focus on the first two while underestimating the third, which is ultimately the most important.

A new concept that this chapter introduces is Fiscal Institutional Metabolism: the rate and efficiency with which a public financial management system converts reform inputs, including new laws, new systems, new organizational structures, new training programs, and new international technical assistance, into sustained improvements in fiscal outcomes, measured across revenue performance, expenditure efficiency, and accountability quality.

The concept of fiscal institutional metabolism addresses a persistent puzzle in development economics: why do governance reforms that succeed in one country fail in another when the structural design of the reform is essentially identical? The answer lies in the metabolic rate. A low-metabolism institution receives reform inputs but cannot process them into behavioral change because the underlying incentive structures, power relationships, and organizational cultures remain intact. A high-metabolism institution processes the same inputs rapidly, embedding new behaviors and generating the organizational learning that makes reform self-sustaining.

Bangladesh's fiscal institutional metabolism has historically been low to moderate. The introduction of iBAS++ as a comprehensive budget execution system is a clear case. The system itself is technically competent; the problem is that many of its users treat it as a reporting requirement rather than as a management tool, entering data because they must rather than using its outputs to manage their spending programs better. The system has not changed the

metabolism of the institutions it serves sufficiently to realize its full potential for improving fiscal outcomes.

Improving fiscal institutional metabolism requires a theory of institutional change that goes beyond structural redesign. The most credible contemporary theory, drawing on the work of Mushtaq Khan on governance and development, Dani Rodrik on institutional diversity, and more recent behavioral public administration research, holds that institutional change is most durable when it aligns with the existing incentive structures of dominant political actors rather than requiring those actors to sacrifice their interests for the public good. This does not mean that reform must accommodate corruption; it means that reform must be designed to make honest, effective public administration more rewarding for the relevant actors than the status quo.

29.2 A New Doctrine: The Doctrine of Aligned Incentive Reform

The Doctrine of Aligned Incentive Reform holds that fiscal governance reforms are durable when they restructure the incentive landscape facing key institutional actors such that efficient, honest performance becomes privately rewarding rather than privately costly. Reforms that require actors to accept personal cost for public benefit are structurally fragile because they depend on sustained heroic virtue rather than on the reliable operation of self-interest within a well-designed incentive framework.

Applied to the National Board of Revenue, the doctrine has specific implications. Tax officials whose income and career advancement depend primarily on filling revenue quotas by any available means, including harassment, selective enforcement, and negotiated settlements outside legal frameworks, will resist reforms that impose genuine due process constraints, because those constraints reduce their discretionary power and the rents that flow from it. Reforms that address this incentive structure directly, for instance through merit-based promotion systems tied to transparent performance metrics, salary increases funded by documented compliance improvements, and whistleblower protections for officials who report misconduct, create a different incentive landscape in which professional integrity is compatible with personal advancement.

The NBR restructuring that the interim government has attempted, separating tax policy from tax administration, is aligned with the doctrine of aligned incentive reform in principle. The logic is that tax officials responsible for policy would no longer be directly incentivized by collection targets, enabling more rational policy design, while those responsible for administration would have clearer mandates focused on compliance facilitation and enforcement. The resistance to this restructuring from NBR officials, which caused its postponement as noted in the research literature on the FY2025-26 budget, illustrates the doctrine's central insight: incumbents with vested interests in existing incentive structures will resist realignment precisely because it threatens the private returns they extract from the current arrangement.

29.3 The Bangladesh Bank Reserve Question and Its Fiscal Architecture

Bangladesh Bank's reserve management represents a point of intersection between monetary policy, fiscal policy, and governance that is inadequately analyzed in most budget discussions,

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which treat the central bank as an external constraint rather than as an integral component of the broader fiscal governance architecture.

The concept of Bank Reserve Fiscal Interface refers to the set of mechanisms through which the central bank's balance sheet position, reserve adequacy, and lending behavior affect the fiscal capacity of the central government, and conversely through which fiscal decisions affect the central bank's monetary management. This interface is not merely technical; it is politically charged, institutionally complex, and, in Bangladesh's experience since 2022, critically important for understanding why fiscal targets have diverged so sharply from fiscal outcomes.

Bangladesh Bank's net international reserves are a fiscal resource of the government in an indirect but real sense. Adequate foreign exchange reserves enable the government to service external debt without resorting to disruptive domestic borrowing or exchange rate depreciation that inflates the taka cost of foreign currency obligations. The collapse in reserves from approximately USD 48 billion gross at end-August 2021 to below USD 20 billion net by early 2024 was therefore not merely a monetary crisis; it was a fiscal crisis expressed in monetary terms. The depreciation of the taka from approximately 85 taka per US dollar in 2021 to over 110 taka per US dollar by 2024 substantially increased the taka cost of external debt service, which is denominated primarily in US dollars, Japanese yen, and Special Drawing Rights, adding significant unplanned expenditure to the government's debt service burden.

The concept of Reserve Depreciation Fiscal Drag is introduced here to name this phenomenon: the automatic increase in the government's domestic currency expenditure on external debt service that results from exchange rate depreciation, without any corresponding increase in the nominal value of the services purchased. When the taka depreciates by 20 percent and external debt service denominated in foreign currency remains constant in value, the government must pay 20 percent more in taka to service the same obligation, creating fiscal drag that squeezes out other expenditure categories without any policy decision having been made to cut them.

29.4 The Treasury Single Account and Its Institutional Significance

The Treasury Single Account (TSA), a single government bank account or a unified structure of linked accounts through which the government manages its cash, is one of the most important public financial management innovations available to developing country governments, and Bangladesh's progress in implementing it is an important marker of fiscal institutional modernization.

A new definition of the Treasury Single Account that reflects current understanding is appropriate here. The Treasury Single Account is the institutional mechanism through which a government consolidates its transactional cash management across all ministries, departments, and agencies into a unified visibility and control framework, enabling real-time knowledge of the government's aggregate cash position, eliminating idle cash fragmented across multiple accounts in different banks, and enabling active cash management that reduces borrowing costs by minimizing unnecessary government borrowing when idle funds exist elsewhere in the system.

This definition departs from older definitions that treated the TSA primarily as an accounting convenience. The contemporary understanding recognizes it as a fiscal instrument that actively reduces the cost of public borrowing, improves fiscal transparency, and serves as the platform on which more advanced treasury management capabilities are built.

Bangladesh's TSA implementation has been partial. The core central government accounts are consolidated through Bangladesh Bank, and the extension of the Treasury Single Account to autonomous bodies, state-owned enterprises, and local government units is still incomplete as of the FY2025-26 budget period. The IMF's Country Report from 2025 specifically noted that efforts to expand the treasury single account were ongoing, and that greater use of electronic funds transfer for central government transactions was expected to reduce leakages and improve spending efficiency. This means the government cannot see its full cash position in real time, cannot optimize its borrowing against idle funds in peripheral accounts, and is vulnerable to the leakages that occur when public money passes through unmonitored intermediaries.

The fiscal cost of an incomplete TSA is not trivial. Estimates of idle balances in government accounts outside the central TSA system in developing countries typically run to several percentage points of total government spending. In Bangladesh's case, this could represent tens of thousands of crore taka in misallocated or idle public money that the government is simultaneously borrowing to replace, paying domestic interest rates on borrowed funds while earning nothing on the idle balances. Full TSA implementation is therefore not merely a technical reform; it is a fiscal efficiency measure with direct implications for the debt service burden that is crowding out productive spending.

29.5 The New Principle of Fiscal Accountability Proximity

Standard accountability theory places the highest accountability burden on the central budget authority, which designs the framework, and on the supreme audit institution, which evaluates compliance with it. This binary model misses the crucial middle tier: the implementing institution that translates budget allocation into service delivery. A new principle, the Principle of Fiscal Accountability Proximity, holds that fiscal accountability must be concentrated at the point of service delivery, not merely at the point of appropriation, and that accountability systems that focus on legislative and central audit oversight without creating strong accountability mechanisms at the implementation level will systematically fail to close the gap between budget intention and service outcomes.

Applied to Bangladesh, this principle identifies the biggest accountability gap in the system: not in the formal parliamentary appropriation process, where constitutional provisions are reasonably clear, but in the implementation of programs at the upazila and union levels, where the combined forces of physical distance from accountability institutions, weak local government capacity, patronage networks that capture program beneficiary selection, and absent independent monitoring create conditions in which public money can be systematically misappropriated or misallocated without triggering the accountability mechanisms that exist at the center.

The social protection system illustrates this with clarity. The Old Age Allowance and Widow's Allowance programs have existed for decades and have national legislative frameworks that are

reasonably well designed. The accountability failures are not in those frameworks; they are in the local political processes through which beneficiary lists are assembled, which in practice include politically connected individuals who do not meet eligibility criteria while excluding genuinely eligible poor people who lack political connections. No amount of central budget monitoring can fix this problem unless it is complemented by strong community-level accountability mechanisms, independent verification of beneficiary lists, and grievance redress systems that are accessible to the poor.

29.6 Comparative Governance Reform: Rwanda, South Korea, and the Transferability Problem

Two countries whose governance reform trajectories are frequently cited as relevant to Bangladesh are Rwanda and South Korea, and both are worth analyzing carefully precisely because the lessons they offer are more complicated than the simple version usually told.

Rwanda's fiscal governance transformation after the 1994 genocide is remarkable by any measure. Starting from a destroyed institutional base, Rwanda built a public financial management system that by the 2010s had achieved budgetary transparency scores above many middle-income countries, virtually eliminated procurement fraud in major infrastructure contracts, and consistently achieved ADP implementation rates above 90 percent. The Rwandan experience demonstrates that rapid fiscal institutional transformation is possible, even in low-income countries, when political leadership is unified around a developmental project, institutions are staffed by accountable professionals with clear performance mandates, and technology is deployed as a genuine management tool rather than as a donor compliance requirement.

The transferability problem is that Rwanda's fiscal governance transformation occurred under a centralized political system with a dominant ruling party and a leader, Paul Kagame, whose personal authority substantially reduced the collective action problems that normally make reform difficult. In Bangladesh, which is constitutionally a parliamentary democracy with genuinely competitive politics, the political economy of reform is fundamentally different. Multiple competing parties, strong organized interest groups in the business community and civil service, and a genuinely plural public sphere mean that the Rwandan model cannot be transplanted without substantial modification.

South Korea's experience is more relevant for Bangladesh's trajectory. South Korea in the 1960s and 1970s was a developing economy with a complex political economy, significant political turbulence, a large public bureaucracy with mixed performance, and a government attempting to drive rapid industrialization through active fiscal policy. The Korean government under Park Chung-hee managed to achieve remarkable fiscal-developmental performance not by eliminating political economy dynamics but by channeling them through a system of performance-based reciprocity with the private sector: firms received fiscal incentives and market access in exchange for measurable performance in exports, employment, and technology upgrading, with privileges withdrawn when performance targets were not met.

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The lesson for Bangladesh is not to replicate the Korean political system but to take seriously the possibility of designing fiscal incentive systems that are genuinely performance-contingent, where the continuation of tax incentives, subsidies, and preferential financing depends on documented performance against specific economic targets. Bangladesh's fiscal incentive system for the export sector, particularly the garment industry, has been predominantly unconditional: incentives were provided regardless of whether the receiving firms improved technology, raised wages, or expanded formal employment. A Koreanized version of Bangladesh's export fiscal incentives would design conditionality explicitly into the incentive architecture, making performance monitoring a routine function of the relevant revenue authorities.

29.7 The Anti-Corruption Architecture in the Budget: A New Framework

Corruption in public financial management is not a single phenomenon but a family of related problems with different structural causes and therefore different solutions. A new typology introduced here distinguishes three structural forms of fiscal corruption, each requiring different prevention and accountability strategies.

The first is Capture Corruption: the process by which organized interests capture regulatory and administrative institutions to extract systematic rents from the fiscal system, typically through sustained relationships with political and bureaucratic actors rather than episodic bribery. The NPL crisis in Bangladesh's banking sector, in which politically connected business groups borrowed from state-owned banks with full understanding that repayment would not be enforced, is the most egregious recent example of capture corruption in the fiscal system. Its scale, with NPLs reaching above 20 percent of total banking system assets by some estimates, represents a systemic fiscal loss of extraordinary magnitude.

The second is Friction Corruption: the payment of bribes to public officials to secure services that are legally due, avoid delays, or navigate bureaucratic requirements. Unlike capture corruption, friction corruption is widespread across many actors and many transactions, producing high administrative burden for legitimate economic activity and creating a parallel informal tax on commerce that is regressive and distortionary. Friction corruption in customs administration, tax compliance processes, procurement procedures, and local government permitting is a pervasive feature of Bangladesh's public administrative environment that the digital transformation agenda, discussed in the next chapter, is specifically positioned to address.

The third is Leakage Corruption: the diversion of public funds from their authorized purposes during implementation, through inflated procurement prices, ghost beneficiaries in social protection programs, padding of project costs, or unauthorized subcontracting arrangements. Leakage corruption is the most fiscally costly in terms of direct resource loss in the development program, where the gap between allocated funds and delivered infrastructure value represents systematic theft from the public.

Each of these three corruption types requires a distinct prevention strategy. Capture corruption requires independent institutional oversight, not merely better audit procedures, because captured institutions will not honestly audit themselves. Anti-capture measures include genuinely independent central bank governance, a supreme audit institution with real constitutional

protection and adequate resourcing, an anti-corruption commission with prosecutorial independence, and competitive political institutions that offer the population genuine alternatives to the incumbent when corruption becomes sufficiently egregious.

Friction corruption is most effectively addressed by removing human discretion from routine administrative interactions, which is precisely what digital government systems do. When a taxpayer can file a return, receive an assessment, pay a bill, and obtain a clearance certificate through an automated system without ever requiring a discretionary human decision, the opportunity for friction corruption disappears. Similarly, when a customs declaration can be processed electronically with risk-based physical inspection of a small fraction of shipments selected by algorithm rather than officer preference, the scope for corruption in customs narrows dramatically.

Leakage corruption requires real-time expenditure monitoring at the implementation level, procurement systems with transparent pricing databases that flag abnormal bids, social program beneficiary verification through biometric registration and regular re-verification, and independent third-party monitoring of infrastructure projects. Some of these tools are nascent in Bangladesh; none is fully deployed at scale.

29.8 Case Study: The NBR Restructuring Controversy of 2025

The attempt by the interim government to restructure the National Board of Revenue by separating its tax policy and tax administration functions, which was delayed in 2025 following resistance from NBR officials, is one of the most instructive governance episodes in recent Bangladesh fiscal history and deserves detailed analysis.

The case for separation was clear. A single institution responsible for both designing tax policy and administering tax collection faces an inherent conflict of interest: policy is designed by the same officials who will implement it, creating pressure to design policies that are favorable to the implementers' institutional interests and the interests of taxpayers with whom long-term relationships have been developed. Moreover, the knowledge and skills required for good tax policy design, which are primarily analytical, legal, and international, are different from those required for effective tax administration, which are primarily operational, investigative, and data-driven. International experience, including in most OECD countries and many middle-income countries, strongly supports institutional separation.

The opposition from NBR officials reflected the Doctrine of Aligned Incentive Reform's prediction with precision. Officials with established discretionary authority over both policy design and enforcement stood to lose significant institutional power and the private rents associated with it from a restructuring that would divide and clarify their mandates. The protest against the restructuring, framed in organizational efficiency language, was fundamentally a defense of incumbent institutional interests.

The interim government's response, which was to delay rather than abandon the reform while attempting to address the concerns of affected officials, illustrates the governing problem of reform in a political context where the reformers depend on the cooperation of the reformees.

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Without a political mechanism to overcome organized institutional resistance, even well-designed reforms can be stalled indefinitely. The resolution of this particular impasse, whether the separation eventually proceeds or is quietly abandoned, will be an important indicator of the depth of governance reform under the current fiscal framework.

29.9 Exam Questions: Chapter Twenty-Nine

Questions for BEcon Examination

Define Fiscal Institutional Metabolism. Using specific examples from Bangladesh's public financial management reform history from 2004 to 2026, illustrate why two major fiscal reforms have had lower metabolic rates than their designers intended. What institutional conditions would raise Bangladesh's fiscal institutional metabolism? (20 marks)

Explain the Doctrine of Aligned Incentive Reform. How does it explain the resistance of NBR officials to the 2025 restructuring? Design an alternative reform strategy that would achieve the same policy objectives while better aligning with the incentives of incumbent officials. (15 marks)

What is the Treasury Single Account? Why does incomplete TSA implementation have direct fiscal costs, not merely accounting costs? Calculate, using plausible assumptions about idle balances and borrowing rates, the approximate annual fiscal cost of Bangladesh's current partial TSA coverage. (15 marks)

Questions for BSS (Economics) Examination

Distinguish between capture corruption, friction corruption, and leakage corruption as structural forms of fiscal corruption. For each type, identify one specific example from Bangladesh's fiscal system and evaluate the reform strategy most likely to address it. (20 marks)

Compare Bangladesh's fiscal governance reform challenge with that of Rwanda. Why cannot Bangladesh simply replicate Rwanda's governance reform model? What elements of the Rwandan experience are genuinely transferable and how should they be adapted? (15 marks)

What is Fiscal Accountability Proximity? How does the concept change the way we should design accountability systems for social protection programs in Bangladesh? (12 marks)

Questions for MSS (Economics) Examination

Develop an original theoretical framework for understanding why governance reforms in developing countries consistently fall short of their stated objectives. Draw on the concepts of Fiscal Institutional Metabolism, the Doctrine of Aligned Incentive Reform, and the political economy literature on bureaucratic capture to construct a model that is applicable specifically to Bangladesh's situation. What does your model predict about the likely outcomes of the current interim government's reform agenda? (35 marks)

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Critically assess the claim that digital government transformation is the most effective available strategy for reducing friction corruption in Bangladesh's fiscal system. What are the limits of digitization as an anti-corruption tool, and what complementary institutional reforms are required? (25 marks)

CHAPTER THIRTY: THE BANKING SYSTEM, MONETARY POLICY, AND FISCAL ARCHITECTURE: UNDERSTANDING THE BANGLADESH CASE

30.1 The Concept of Monetary-Fiscal Dominance and Its Bangladesh Application

The relationship between monetary policy and fiscal policy is one of the most contested and consequential in macroeconomics. Classical monetary theory insists on the independence of central banks and the subordination of monetary objectives to price stability rather than fiscal convenience. Post-Keynesian and Modern Monetary Theory traditions challenge this hierarchy, arguing that in a sovereign currency-issuing economy, the central bank is in practice the fiscal agent of the government and that central bank "independence" is a political and ideological construction rather than an economic necessity.

Bangladesh's experience from 2020 to 2026 offers a rich empirical case study in what this textbook terms Monetary-Fiscal Boundary Erosion: the progressive blurring of the institutional and functional boundaries between central bank monetary operations and government fiscal management, driven by the pressures of fiscal deficit financing, banking sector crisis management, and foreign exchange reserve operations.

A new definition of Monetary-Fiscal Boundary Erosion is: the process by which the operational space between central bank monetary management and government fiscal management shrinks over time as pressures of deficit financing, financial sector crisis, exchange rate management, and directed credit operations cause the central bank to undertake activities that are functionally fiscal, including recapitalizing banks, subsidizing credit to priority sectors, managing exchange rates for fiscal purposes, and directly financing government deficits through primary market purchases of government securities.

During the 2020 to 2024 period, Bangladesh Bank undertook several operations that crossed the conventional monetary-fiscal boundary. The COVID-19 stimulus programs, while formally channeled through the commercial banking system, were partly underwritten by Bangladesh Bank liquidity support to banks that experienced losses on subsidized stimulus loans. The bank recapitalization operations that provided capital to state-owned banks suffering from large NPL exposures were quasi-fiscal operations: they transferred public resources to insolvent financial institutions through the central bank's balance sheet rather than through an explicit budget allocation, obscuring the true fiscal cost from parliamentary oversight.

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30.2 Bank Reserve Requirements as a Fiscal Instrument

Bank reserve requirements, the mandatory holdings of liquid assets by commercial banks as a fraction of their liabilities, are conventionally analyzed as a monetary policy tool: by changing the reserve ratio, central banks change the money multiplier and thus the potential expansion of the money supply. This analysis, while correct, understates the fiscal dimension of reserve policy.

A new framework, Reserve Requirement Fiscal Geometry, proposes that reserve requirements create a three-dimensional fiscal space simultaneously affecting revenue, spending, and financing. In the revenue dimension, reserve requirements implicitly tax commercial banks by requiring them to hold assets at below-market yields. This implicit tax flows as a financial benefit to the government when the central bank uses reserve-backed deposits to purchase government securities at below-market rates. In the spending dimension, reserve requirements affect the credit supply to the private sector, which in turn affects economic activity and therefore the tax base. In the financing dimension, reserve requirements shape the banking system's capacity to absorb government debt issuance, affecting the interest rates the government pays to finance its deficit.

Bangladesh's Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements, maintained at various levels by Bangladesh Bank, have been used as fiscal tools in ways that do not always appear in conventional analysis. During periods of heavy government borrowing, the SLR requirement that banks hold government securities as part of their required liquid assets effectively creates a captive demand for government paper, enabling the government to borrow at lower rates than it would face in a purely competitive market. This is a concealed fiscal subsidy: the government pays below-market rates on its domestic borrowing at the cost of depressing bank profitability and restricting credit available for private lending.

The IMF's Bangladesh program has specifically addressed this issue, recommending that the government move toward market-determined interest rates on treasury securities and reduce its dependence on regulatory requirements as a mechanism for ensuring bank demand for government paper. The logic is that genuine market pricing of government debt, while raising short-term borrowing costs, improves fiscal discipline by making the true cost of deficit financing transparent, strengthens the commercial banking system by allowing banks to earn fair returns on their government securities holdings, and develops the domestic capital market as a genuine source of long-term finance for both public and private investment.

30.3 Non-Performing Loans, Bank Capital, and Implicit Fiscal Costs

The NPL crisis in Bangladesh's banking system, which reached a reported 14 to 20 percent of total loans by various estimates in the 2023 to 2025 period, represents an implicit fiscal liability of enormous scale that does not appear in the formal budget but constitutes a real claim on public resources that will eventually be settled through some combination of bank recapitalization, depositor insurance payments, and central bank liquidity support.

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The concept of Implicit Fiscal Liability Crystallization describes the process by which contingent liabilities that exist off-balance-sheet for the government, such as guarantees for state enterprise debt, implicit deposit insurance for banks too large to fail, and unfunded pension obligations, eventually become explicit claims on the budget when the triggering event occurs. The NPL crisis in Bangladesh is precisely such a crystallization event: the implicit government guarantee to depositors and systemically important creditors of the largest state-owned banks means that their capital deficiencies, accumulated through years of politically directed lending to connected borrowers who did not repay, must eventually be addressed through some form of public financial support.

The fiscal scale of this problem is difficult to quantify precisely, in part because the banks' own NPL reporting is known to significantly understate the true scale of problem loans, and in part because the resolution mechanism has not yet been fully designed. The IMF's January 2026 Article IV urged authorities to conduct asset quality reviews for all systemic and state-owned banks, define fiscal support mechanisms, and outline legally robust restructuring and resolution plans. The gap between what these reviews are likely to reveal and what the current formal budget acknowledges as a banking sector liability is itself a form of fiscal inauthenticity at the largest possible scale.

A new principle, the Principle of Contingent Fiscal Transparency, holds that government budgets should include explicit disclosure of material contingent liabilities, their estimated probability of crystallization, and the fiscal response mechanisms that would be triggered if they do crystallize, so that parliament and the public can assess the true fiscal position of the state, including its off-balance-sheet exposures, rather than only its formally recorded obligations.

30.4 The Exchange Rate and Budget Interaction: A Technical Analysis

The relationship between the exchange rate and the budget is bidirectional and often inadequately analyzed in budget presentations that treat the exchange rate as an external variable rather than as a policy variable with direct fiscal consequences.

From budget to exchange rate: the government's fiscal deficit affects the exchange rate through multiple channels. If the deficit is financed by borrowing from the banking system, it expands money supply and, given fixed supply of foreign exchange, tends to depreciate the exchange rate. If financed by external borrowing in foreign currency, it initially provides foreign exchange support but creates future debt service obligations that will require foreign exchange outflows. Large fiscal deficits that erode confidence in fiscal sustainability can trigger capital flight, directly depreciating the exchange rate.

From exchange rate to budget: exchange rate movements affect the budget through several channels. First, external debt denominated in foreign currency becomes more expensive in domestic currency terms when the taka depreciates, directly increasing debt service expenditure. Second, import-dependent subsidies, particularly fuel and fertilizer subsidies, become more costly in taka terms when the exchange rate depreciates, creating automatic expenditure pressure that does not appear in any formal budget indexing mechanism. Third, export earnings in foreign

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currency generate more taka revenue per dollar of exports, potentially benefiting customs duty collection and income taxes on export sector firms.

The concept of Exchange Rate Fiscal Sensitivity Coefficient is introduced here as: the percentage change in the total government budget expenditure requirement per one percentage point of taka depreciation, accounting for the direct effects on external debt service costs, import-dependent subsidy costs, and exchange-rate-sensitive program costs. For Bangladesh in FY2025-26, a rough calculation suggests that each 1 percent depreciation of the taka increases the budget's effective expenditure requirement by approximately Tk 1,500 to 2,000 crore when all channels are included. A 15 percent depreciation, which is broadly what occurred from 2022 to 2024, would therefore have added approximately Tk 22,500 to 30,000 crore to effective expenditure pressure, an amount roughly equivalent to Bangladesh's annual health budget, without any corresponding parliamentary decision to increase spending.

30.5 The New Monetary Policy Framework and Its Fiscal Implications

Bangladesh Bank's adoption of a new exchange rate framework in May 2025, transitioning toward a crawling peg arrangement and then moving toward greater exchange rate flexibility as required by IMF program conditionalities, has significant fiscal implications that the budget discourse has not adequately processed.

A crawling peg exchange rate regime, in which the taka's value is adjusted in small regular increments rather than being maintained at a fixed rate, represents a significant departure from the managed float arrangement that Bangladesh operated under for most of the 2010s. The IMF Country Report from 2025 specifically noted the importance of "full and consistent implementation of the exchange rate reform and greater exchange rate flexibility" as a condition for continued program engagement.

From a fiscal perspective, greater exchange rate flexibility means that the government can no longer use exchange rate stability as an implicit inflation management tool, absorbing global commodity price increases through overvalued currency rather than passing them through to domestic prices. This is simultaneously fiscally honest and short-term painful: when exchange rate depreciation passes through to domestic prices, subsidy costs rise immediately and the social protection system faces additional pressure from households whose real purchasing power is eroded by the imported component of inflation.

The new monetary policy framework's implications for the budget thus include a requirement for more explicit and better-funded social protection cushions to manage the welfare costs of exchange rate pass-through inflation, a more transparent subsidy reform program that reduces the fiscal cost of price interventions as they become increasingly unsustainable under a more flexible exchange rate, and a more sophisticated debt management strategy that explicitly accounts for the exchange rate risk embedded in the government's large foreign currency debt portfolio.

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30.6 The Sovereign Credit Rating and Fiscal Governance: A New Perspective

Bangladesh's sovereign credit rating, maintained by agencies including Moody's, Standard and Poor's, and Fitch, is both a reflection of fiscal governance quality and an active determinant of financing costs. But the relationship is more complex than this simple summary suggests, and the institutional economics of credit rating deserve attention in any serious treatment of fiscal architecture.

A new concept, Sovereign Rating Fiscal Recursion, describes the self-reinforcing relationship between credit rating and fiscal outcomes: a lower credit rating increases borrowing costs, which worsens fiscal sustainability, which may justify a further rating downgrade, which further increases borrowing costs in a negative feedback loop. Conversely, a higher rating reduces borrowing costs, creating fiscal space that enables better developmental outcomes, which may support a further upgrade. The recursive character of this relationship means that credit rating transitions are not merely assessments of underlying fiscal quality but active interventions in the fiscal system that can amplify trends in either direction.

Bangladesh's sovereign rating has faced downgrade pressure during the 2023 to 2025 period, reflecting the reserve decline, banking sector vulnerabilities, and revenue underperformance documented throughout this chapter. While Bangladesh has not yet experienced a rating downgrade of the magnitude that would trigger a sharp increase in external borrowing costs, the risk of such a downgrade is real and its fiscal consequences would be severe at a time when debt service is already crowding out productive spending.

The appropriate policy response to sovereign rating risk is not merely fiscal tightening but the comprehensive governance reform agenda discussed throughout this part: improved fiscal transparency that makes genuine progress credible to rating analysts, institutional reforms that demonstrate a sustainable trajectory rather than merely current-period adjustments, and macroeconomic stabilization that addresses the underlying vulnerabilities in reserves, inflation, and banking sector health.

30.7 Exam Questions: Chapter Thirty

Questions for BEcon Examination

Define Monetary-Fiscal Boundary Erosion. Using specific examples from Bangladesh's experience in 2020 to 2025, illustrate three ways in which Bangladesh Bank's operations crossed the conventional monetary-fiscal boundary. What are the risks of such boundary erosion for macroeconomic stability? (20 marks)

Explain Reserve Requirement Fiscal Geometry and its three dimensions. How did Bangladesh's SLR requirement create a concealed fiscal subsidy during the heavy government borrowing period of 2020 to 2024? What are the welfare costs and benefits of this concealed subsidy? (15 marks)

What is the Exchange Rate Fiscal Sensitivity Coefficient? Calculate a rough estimate of its value for Bangladesh using data from the FY2025-26 budget and exchange rate movements from 2022 to 2025. What fiscal policy adjustments should automatically accompany a large exchange rate depreciation? (20 marks)

Questions for BSS (Economics) Examination

Explain the concept of Implicit Fiscal Liability Crystallization. Identify two current contingent liabilities in Bangladesh's fiscal system, beyond the banking sector NPL problem, and estimate their probability of crystallization and fiscal cost within the next five years. (15 marks)

How does Sovereign Rating Fiscal Recursion create a risk that a mild deterioration in Bangladesh's fiscal position could amplify into a severe fiscal crisis? What institutional mechanisms could break the negative feedback loop before it becomes self-sustaining? (12 marks)

Analyze the fiscal implications for Bangladesh of the transition to a more flexible exchange rate regime. Who gains and who loses from this transition in fiscal terms? Is the transition net welfare-positive for Bangladesh? (15 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive model of the monetary-fiscal interface in Bangladesh, drawing on the concepts introduced in this chapter. Your model should specify the channels through which fiscal decisions affect monetary outcomes and the channels through which monetary operations affect fiscal outcomes, and should incorporate the institutional realities of Bangladesh Bank's partial independence and the government's heavy domestic borrowing. (30 marks)

Critically assess the argument that Bangladesh's NPL crisis is fundamentally a fiscal crisis that has been expressed through the banking system rather than a banking crisis that has fiscal implications. What institutional reforms to the boundary between fiscal and monetary policy would prevent a recurrence? (25 marks)

CHAPTER THIRTY-ONE: DIGITAL GOVERNMENT AND THE TRANSFORMATION OF BUDGET SYSTEMS

31.1 Digital Governance as Fiscal Infrastructure

The relationship between digital government and fiscal governance is more fundamental than the conventional framing of "e-government" as a service delivery innovation suggests. Digital systems are not merely delivery channels for fiscal processes; they are the infrastructure on which the next generation of fiscal governance is built. Understanding the digital transformation of budget systems requires a framework that connects the technological possibilities to the

institutional and political economy dynamics that determine whether those possibilities are realized.

A new definition of Digital Fiscal Infrastructure is: the integrated network of digital systems, data flows, institutional protocols, and human capabilities through which a state mobilizes revenue, manages expenditure, monitors implementation, enforces accountability, and communicates with citizens about public finances, creating the informational and operational foundation for evidence-based fiscal governance in a complex, data-rich environment.

This definition is deliberately broader than conventional definitions of e-government, which focus on service delivery, or public financial management information systems, which focus on accounting and reporting. Digital Fiscal Infrastructure encompasses all of these but adds the analytical layer: the data management, machine learning, and modeling capabilities through which the state makes sense of the information its digital systems generate, and the communication layer through which it makes fiscal information accessible to the broader public sphere.

31.2 The iBAS++ System: Architecture, Achievements, and Limits

The Integrated Budget and Accounting System (iBAS++) is Bangladesh's central digital fiscal infrastructure for budget preparation and execution. Developed over multiple iterations with technical support from the World Bank and the UK's Foreign, Commonwealth and Development Office, it covers most ministries and departments at the central government level, providing a unified platform for budget formulation, fund release, expenditure tracking, and financial reporting.

iBAS++'s architectural achievements are significant. Before its implementation, budget execution data was fragmented across paper-based systems in different administrative units, making real-time monitoring impossible. The system now provides Finance Division officials with relatively timely data on allotment releases, payments, and cumulative expenditure against budget, enabling a degree of fiscal management that was previously impossible.

However, iBAS++ was designed primarily as a reporting and control system rather than as a management intelligence system. Its current architecture captures what is spent but does not systematically capture what is achieved. A ministry that releases funds to a project can be tracked in iBAS++; whether the funded project was built to specification, delivered the promised capacity, and actually serves the population it was designed to serve is not recorded in the same system. This architectural gap means that iBAS++ cannot close the performance accountability loop that fiscal governance requires.

A new concept relevant here is the Fiscal Data Completeness Horizon: the point beyond which a fiscal data system's records cease to provide reliable information about the real-world outcomes of public spending, and where the linkage between money spent and welfare achieved becomes opaque. Bangladesh's iBAS++ currently sits at a Fiscal Data Completeness Horizon defined by the payment stage: the system knows, with reasonable accuracy, how much was paid from the

consolidated fund to which ministry for which budget line. It does not know what happened to the money after that point with the same precision.

Extending the Fiscal Data Completeness Horizon requires connecting iBAS++ data to a range of complementary systems: a National Social Registry linked to beneficiary payment records, a project monitoring system linked to physical progress reporting, a procurement database linked to contract completion records, and a tax compliance database linked to audit outcomes. Several of these linking systems are under development in Bangladesh, but their integration into a coherent data ecosystem is incomplete.

31.3 Digitization and the Tax Compliance Revolution

The most documented fiscal impact of digital transformation globally has been in tax administration, where the introduction of e-filing, electronic invoicing, and digital payment tracking has consistently produced large revenue gains in countries ranging from Brazil to Kenya to Estonia.

The mechanism is straightforward and is captured by the concept of Digital Revenue Legibility: the increase in the fiscal authority's ability to observe, verify, and assess the tax liability of economic actors that results from the digitization of economic transactions, creating an electronic audit trail that reduces the scope for undetected underreporting of income and sales.

Bangladesh's progress on digital revenue legibility has been uneven. The NBR has introduced e-filing for income tax and has been expanding its online VAT system. The introduction of Electronic Fiscal Devices (EFDs) for point-of-sale transaction recording in the retail and hospitality sectors is ongoing, though implementation has been slower than initially planned. Digital payment growth through mobile financial services, particularly bKash, Nagad, and Rocket, has created a massive electronic transaction record that, if properly analyzed, could substantially improve the detection of informal business income that is currently outside the tax net.

A new doctrine, the Doctrine of Transactional Fiscal Visibility, holds that governments should design their fiscal systems to maximize the passive legibility of economic activity, creating an environment in which the normal operation of the economy generates data that tax authorities can analyze for compliance purposes, reducing both the cost of enforcement and the need for adversarial audit interactions that damage the taxpayer-authority relationship.

Applied to Bangladesh, this doctrine has specific implications. The government should require that all business-to-business transactions above a modest threshold be conducted through traceable digital payment channels, with the transaction data shared with the NBR through a standardized reporting interface. It should integrate the Bangladesh Bank's financial transaction monitoring database with the NBR's taxpayer registry, creating automatic alerts when taxpayers' transactional profiles are inconsistent with their declared income. And it should invest in AI-based risk profiling that can identify high-probability underreporting cases for prioritized audit, concentrating enforcement resources where they are most likely to produce results.

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31.4 Mobile Financial Services and the Fiscal Inclusion Agenda

Bangladesh's remarkable mobile financial services ecosystem, led by bKash with over 65 million registered accounts as of 2024, represents not just a financial inclusion achievement but a fiscal infrastructure opportunity that has been significantly underutilized.

Mobile financial services create a digital payments layer that reaches deep into rural Bangladesh, where the traditional banking system has minimal presence. This layer is potentially transformative for three fiscal functions: social protection delivery, tax payment accessibility, and government service fee collection. But realizing this potential requires intentional fiscal design, not merely passive coexistence with a growing private financial infrastructure.

The Government to Person Payment system, which routes social protection transfers directly to beneficiary mobile financial accounts, has been piloted and partially scaled in Bangladesh. The pandemic period saw the government use mobile financial services to deliver emergency cash transfers to urban poor households, demonstrating the technical feasibility of using the mobile financial infrastructure for fiscal transfers. The challenge is to scale this from emergency operations to routine social protection delivery: every beneficiary of the Old Age Allowance, the Widow's Allowance, and the Vulnerable Group Development program who receives payment through a verifiable mobile financial account rather than through local government cash distribution is simultaneously receiving more reliably and creating a digital record of their transfer receipt that enables accountability monitoring.

A new concept, the Mobile Fiscal Multiplier, describes the ratio of additional fiscal efficiency gains per taka invested in mobile financial service integration for government payment systems, compared to the cost of the traditional paper-and-cash payment infrastructure it replaces. Estimates from comparable deployments in Kenya's Huduma Namba digital identification and payment system and India's Jan Dhan account-linked Aadhaar payment infrastructure suggest that mobile fiscal multipliers of 2 to 5 are achievable when the digital payment infrastructure is designed with fiscal governance objectives from the beginning, rather than retrofitted after the fact.

31.5 Artificial Intelligence in Budget Analysis: Opportunities and Risks

The application of artificial intelligence and machine learning to fiscal governance is advancing rapidly in higher-income countries and beginning to be explored in middle-income countries with stronger digital infrastructure. Bangladesh's engagement with AI in fiscal management is nascent but deserves analytical attention because the design choices made now will shape the trajectory for years.

The most mature AI application in fiscal governance is risk-based audit selection: using machine learning models trained on historical taxpayer data to predict the probability that a given tax return contains material underreporting, enabling tax authorities to concentrate audit resources on the cases most likely to produce compliance improvements. The Ethiopian Revenue and Customs Authority, Kenya Revenue Authority, and Uruguay's DGI have all implemented AI-based audit selection systems with documented revenue improvements.

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A new principle, the Principle of Algorithmic Fiscal Non-Discrimination, holds that AI-based fiscal decision systems must be designed and monitored to ensure that their outputs do not systematically disadvantage particular groups on the basis of characteristics unrelated to legitimate fiscal risk assessment, including ethnicity, religion, gender, geographic location, or political affiliation. This principle is particularly important in societies with histories of discriminatory enforcement, where the digitization of discretionary processes can encode historic discrimination rather than eliminating it.

AI applications in budget preparation are less mature but potentially equally important. Models that predict the execution rates of individual budget programs and projects, based on their historical implementation characteristics and their similarities to other programs, could provide finance ministry officials with a realistic picture of expected actual spending versus nominal allocation well before the fiscal year begins. This would enable more realistic ADP planning and reduce the systematic overambition that characterizes Bangladesh's current budget process.

The risks of AI in fiscal governance include the opacity of model outputs, which can make it difficult for adversely affected parties to understand or challenge algorithmic decisions; the tendency of models trained on historical data to perpetuate historical patterns rather than enabling genuine reform; and the cybersecurity vulnerabilities of digital fiscal infrastructure that AI applications expand. Managing these risks requires explicit governance frameworks for AI in fiscal applications, including mandatory explainability requirements for consequential decisions, regular external audits of algorithmic systems for discriminatory patterns, and investment in cybersecurity commensurate with the fiscal value of the systems being protected.

31.6 The Digital Divide and Fiscal Exclusion

Any serious analysis of digital fiscal transformation must confront the fact that digital infrastructure is unevenly distributed, and that strategies designed around digital access can inadvertently deepen fiscal exclusion for those who lack that access.

Bangladesh's rural broadband penetration of 42 percent as of the FY2025-26 budget analysis means that more than half of rural Bangladesh cannot fully access digital government services. In the most remote areas, connectivity is not just low but functionally absent. For these populations, digital fiscal transformation that does not explicitly include analog fallback mechanisms is transformation that excludes rather than includes.

The concept of Digitally Mediated Fiscal Exclusion describes the condition in which the expansion of digital government services, designed to improve fiscal efficiency and service delivery, effectively reduces access for populations without reliable digital connectivity, creating a two-tier fiscal citizenship in which those with digital access receive faster, more efficient, and less corruptible services while those without digital access are pushed further into the corrupt, slow, and unreliable analog channels that the digital transformation was supposed to replace.

Avoiding digitally mediated fiscal exclusion requires explicit inclusive digital design: provision of digital access points in community facilities for those without personal device access, simplified mobile interfaces that function over basic 2G connectivity, human-assisted digital

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service centers in underserved areas, and maintenance of offline administrative capacity as a genuine service option rather than merely as a compliance backstop.

31.7 Exam Questions: Chapter Thirty-One

Questions for BEcon Examination

Define Digital Fiscal Infrastructure. How is this concept broader than conventional definitions of e-government or public financial management information systems? Identify two areas where Bangladesh's digital fiscal infrastructure has significant gaps and propose specific investments that would close them. (15 marks)

Explain the concept of Fiscal Data Completeness Horizon. Where does iBAS++ currently sit on this horizon? What additional data systems would need to be integrated to extend iBAS++'s completeness to the program outcome level? (15 marks)

What is the Mobile Fiscal Multiplier? Using the example of social protection payment delivery, calculate a rough estimate of the mobile fiscal multiplier achievable if Bangladesh fully shifts Old Age Allowance delivery to mobile financial service payments. (12 marks)

Questions for BSS (Economics) Examination

Explain the Doctrine of Transactional Fiscal Visibility. Identify three specific policy measures the NBR should implement to increase transactional fiscal visibility of Bangladesh's informal economy. For each measure, estimate its potential revenue impact. (15 marks)

What is Digitally Mediated Fiscal Exclusion? Design a digitally inclusive strategy for rolling out online tax filing in Bangladesh that avoids excluding rural and low-income taxpayers. (12 marks)

Explain the Principle of Algorithmic Fiscal Non-Discrimination. Using a hypothetical AI-based audit selection system for Bangladesh, identify two ways the system could produce discriminatory outcomes and propose design modifications that would prevent them. (12 marks)

Questions for MSS (Economics) Examination

Construct an original framework for evaluating the overall readiness of Bangladesh's digital government infrastructure to support the next generation of fiscal governance reforms. Your framework should assess the current state, identify the most binding constraints, propose a phased investment and institutional reform agenda, and estimate the fiscal returns to that agenda. (30 marks)

Critically assess the argument that digital transformation is the most powerful available lever for improving Bangladesh's tax compliance performance. What are the limits of digital compliance solutions, and what complementary non-digital reforms are required to achieve the Medium-Term Long-Run Tax Strategy's target of 10.5 percent tax-to-GDP by FY2035? (25 marks)

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CHAPTER THIRTY-TWO: COMPARATIVE BUDGET ARCHITECTURES: INTERNATIONAL SYSTEMS AND LESSONS FOR BANGLADESH

32.1 The Comparative Method in Fiscal Analysis: A New Framework

The use of international comparisons in fiscal policy analysis is simultaneously the most common and the most poorly executed practice in development economics. Every budget discussion in Bangladesh references the country's low tax-to-GDP ratio compared to South Asia's average, India's performance, or the OECD mean. What is rarely done is the more difficult analytical work of understanding why those differences exist, whether the underlying conditions that produced fiscal performance in comparator countries are present in Bangladesh, and which elements of comparator experience are genuinely transferable versus which are specific products of conditions that Bangladesh does not share.

A new framework for comparative fiscal analysis, which this textbook calls Structural Contextual Comparativism, holds that international comparisons are analytically valid only when they are accompanied by explicit analysis of three dimensions of comparability: structural comparability (whether the economic structure, institutional heritage, and fiscal position of the comparator country are sufficiently similar to Bangladesh to make direct comparison meaningful), contextual comparability (whether the political, social, and historical context of the comparator's fiscal achievement is replicable in Bangladesh's context), and temporal comparability (whether the comparator's relevant experience occurred in a period whose global economic environment was sufficiently similar to Bangladesh's current environment to make the comparison instructive).

This framework has immediate implications for which comparators are most useful for Bangladesh. India is structurally comparable in many ways: similar colonial institutional heritage, comparable economic size and complexity, a large informal sector, a federal structure, and a long history of developmental planning. But India's federal system, which distributes significant fiscal authority to states with diverse economic and political characteristics, makes direct comparison of national-level revenue performance potentially misleading, since India's national government collects revenue that in Bangladesh's unitary system is collected at the same level. South Korea and Taiwan are relevant as developmental state comparators but are temporally incomparable: their critical fiscal-developmental transitions occurred in the 1960s and 1970s under geopolitical conditions, Cold War security arrangements, and global economic environments that are not reproducible today.

The most structurally, contextually, and temporally comparable fiscal system for Bangladesh is probably Vietnam, which shares a Southeast Asian developmental state tradition, a post-socialist economic transition, a strong emphasis on export manufacturing, a large rural agricultural sector, and a similar period of rapid economic growth and fiscal expansion. Vietnam's fiscal experience from 2010 to 2025, a period of sustained growth in which revenue performance improved significantly while the budget was used actively for development investment, offers genuinely transferable lessons that receive insufficient attention in Bangladesh's fiscal discourse.

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32.2 Vietnam's Fiscal Architecture: A Deep Comparative Study

Vietnam's fiscal transformation from 2000 to 2025 offers a case study in the conditions under which a developing economy with significant structural similarities to Bangladesh has achieved markedly better fiscal performance. Vietnam's tax-to-GDP ratio reached approximately 19 to 20 percent by the mid-2010s, more than twice Bangladesh's ratio, before declining somewhat to around 15 to 16 percent more recently as corporate tax rates were reduced to attract foreign investment. Vietnam's ADP equivalent, the public investment program, consistently achieved implementation rates above 85 to 90 percent. Its debt-to-GDP ratio, while increasing, remained well within sustainability thresholds. Its banking sector, while facing NPL challenges of its own, has been subject to more aggressive reform and recapitalization than Bangladesh's.

Three structural features of Vietnam's fiscal architecture are particularly instructive. First, Vietnam maintained a high degree of fiscal transparency at the institutional level between the central government and local governments, through a clearly defined intergovernmental fiscal transfer system that allocated resources according to formula rather than political negotiation, reducing the scope for the rent-seeking behavior in fiscal transfers that plagues many comparable systems including Bangladesh's.

Second, Vietnam invested heavily in the technical capacity of its tax administration, particularly in information technology infrastructure, from relatively early in its reform period. The General Department of Taxation's electronic tax management system, which went through multiple iterations from the early 2000s, progressively digitized tax registration, filing, payment, and audit, enabling compliance monitoring at a scale and speed not achievable through manual systems. The fiscal payoff was directly observable in revenue performance.

Third, and most importantly for Bangladesh, Vietnam maintained a credible and politically supported anti-corruption framework in the fiscal system. The broad campaign against corruption in the state sector from approximately 2016 onward under General Secretary Nguyen Phu Trong's leadership, known informally as the "burning furnace" campaign, prosecuted numerous high-profile corruption cases in state enterprises, banking institutions, and public procurement, including within sectors that had previously been considered politically protected. While this campaign raised legitimate concerns about due process, its fiscal effect was to signal that capture corruption would be consequentially punished, changing the risk calculus for officials and connected businesspeople.

32.3 The Nordic Social Contract Fiscal Model: Philosophy and Transferability

The Nordic countries, particularly Denmark, Sweden, Finland, and Norway, represent the global benchmark for high-revenue fiscal systems that achieve both fiscal sustainability and broadly shared social welfare. Their tax-to-GDP ratios of 40 to 50 percent, while superficially an impossible aspiration for Bangladesh, embed important principles of fiscal design that are genuinely transferable even at much lower overall revenue levels.

A new concept, the Nordic Fiscal Compact Principle, describes the essential insight of the Nordic model that is transferable across contexts: the social contract between citizens and the

state is most stable and fiscally productive when citizens perceive that the taxes they pay are returned to them in high-quality public services that they and their families actually use, creating a virtuous cycle in which high compliance supports high-quality services which support high compliance. The Nordic model works not because Scandinavian citizens are uniquely virtuous but because the design of the fiscal compact makes honest tax payment individually rational: the social insurance provided by the welfare state gives every taxpayer a personal stake in the system's solvency.

Bangladesh's fiscal compact, by contrast, has historically been characterized by what might be called Asymmetric Social Contract Failure: the state extracts revenue from formal sector workers and businesses with reasonable efficiency but returns it in public services of such consistently poor quality that many taxpayers, particularly upper-middle-income urban households, opt out of public services entirely, using private schools, private hospitals, and private security, while continuing to pay taxes. This opt-out behavior weakens the political coalition for improving public service quality, because those with the most political influence have personal incentives to minimize their tax burden while having no personal need for the services that revenue would fund.

Breaking this cycle is a fiscal governance challenge as much as a technical one. It requires demonstrating, through specific high-visibility improvements in public service quality in sectors that middle-class taxpayers use, that their taxes produce services worth paying for. The fiscal sociology of tax compliance is ultimately about trust, and trust is built by performance.

32.4 India's GST Reform: Lessons for Bangladesh's VAT Architecture

India's Goods and Services Tax reform, implemented from July 2017 after years of complex negotiation across federal and state levels, represents the most ambitious tax reform in a large developing economy in the past decade, and its experience has both positive and cautionary lessons for Bangladesh's own VAT reform agenda.

India's GST sought to replace a complex web of central and state indirect taxes, including central excise, service tax, state VAT, entry taxes, and entertainment taxes, with a unified national goods and services tax with a single administrative interface. The reform achieved genuine simplification of the multi-layered indirect tax system, enabled a cleaner input tax credit mechanism, and created a comprehensive digital transaction reporting infrastructure, the GST Network (GSTN), which generates massive data on business-to-business and business-to-consumer transactions.

The cautionary lessons are equally important. India's GST was introduced with multiple rates, ranging from 0 percent on essentials to 28 percent on luxury goods and sin goods, plus a range of exemptions and concessions, creating a rate structure of considerable complexity that has been partially simplified but remains far from the clean single-rate VAT that tax economists recommend. The multiple-rate structure was the political price of coalition building across diverse business and consumer interests, and it illustrates how the optimal tax design gives way to politically achievable tax design in the real world of democratic governance.

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For Bangladesh, the lesson is that the existing multi-rate VAT structure, which expanded significantly with the FY2012 VAT reform and has been further complicated by subsequent exemptions and concessions, reflects accumulated political settlements rather than optimal design. The reform agenda should aim to consolidate the VAT rate structure toward a small number of clearly defined rates, with the standard rate of 15 percent as the default, a reduced rate for genuinely essential goods consumed primarily by low-income households, and zero rating only for exports and a narrow category of basic necessities. This simplification would improve compliance by reducing classification disputes, reduce the scope for lobbying for preferential rates, and increase the revenue yield of the VAT without necessarily raising its incidence on low-income households if the reduced rate category is designed carefully.

32.5 Brazil's Fiscal Responsibility Law: Design Principles and Bangladesh Relevance

Brazil's Lei de Responsabilidade Fiscal (LRF), enacted in 2000 under Finance Minister Pedro Malan, is one of the most consequential fiscal rules in the developing world and offers specific design principles relevant to Bangladesh's need for a statutory fiscal anchor.

The LRF established numerical rules for fiscal performance: limits on personnel expenditure as a share of net revenue, requirements for primary fiscal surpluses, provisions for corrective action when limits were breached, and detailed disclosure requirements for fiscal planning and reporting. Its most innovative feature was the subnational dimension: the law applied to all levels of government, including state and municipal governments, addressing the soft budget constraint that had historically allowed Brazilian states to accumulate unsustainable debts with the expectation that the federal government would bail them out.

Brazil's experience demonstrated that statutory fiscal rules can work in developing country settings, but only under specific conditions: strong political consensus around the reform at the time of adoption, institutional credibility established through consistent early enforcement, including against politically powerful actors, and clear and transparent reporting mechanisms that make non-compliance publicly visible and politically costly.

Bangladesh's equivalent conversation involves the design of a Fiscal Responsibility and Budgetary Transparency Act (FRBTA) that has been discussed but not enacted. The key design questions for such a law are: what numerical rules are appropriate for Bangladesh's current fiscal position and trajectory; how should the rules accommodate genuine economic shocks without creating perverse procyclical incentives; what institutional body should be responsible for compliance monitoring; and what consequences should follow non-compliance. A Bangladesh FRBTA modeled thoughtfully on the LRF's design principles, adapted for a unitary rather than federal system and for Bangladesh's specific fiscal context, would provide a valuable anchor for medium-term fiscal sustainability while preserving the flexibility needed to respond to shocks.

32.6 Kenya's Revenue Authority Reform: Digital Compliance and Institutional Design

Kenya Revenue Authority (KRA) represents one of the most instructive examples of revenue administration reform in an African country context, with direct relevance for Bangladesh's NBR modernization agenda.

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Kenya established the KRA in 1995 as a semi-autonomous body, separated from the treasury, with a board of directors, an executive director with managerial independence, and staff compensation structures set by the board rather than by civil service salary scales. The rationale was the same as for Bangladesh's contemplated NBR restructuring: combining policy design and administration creates conflicts of interest, and civil service salary scales cannot attract and retain the technical talent required for modern tax administration.

KRA's digital transformation from 2009 onward, particularly through the iTax system for income tax and customs administration, produced measurable revenue gains. Kenya's tax-to-GDP ratio improved from approximately 13 percent in 2005 to around 16 percent by 2015, before declining somewhat due to aggressive tax incentive competition. More importantly, KRA's ability to cross-match taxpayer data with customs records, banking transaction reports, and real estate registries enabled a fundamentally more sophisticated compliance management approach than the manual audit-based system it replaced.

The transferable lesson for Bangladesh is not the KRA model per se but the principle it embodies: that revenue administration reform requires institutional separation from the policy function, competitive compensation to attract talent, genuine management autonomy to deploy that talent effectively, and investment in digital infrastructure that generates the data quality required for modern compliance management. These are precisely the elements of the NBR restructuring that was delayed in 2025, and their continued advocacy is justified by both the theoretical logic and the international evidence.

32.7 Exam Questions: Chapter Thirty-Two

Questions for BEcon Examination

Define Structural Contextual Comparativism as a framework for comparative fiscal analysis. Apply it to assess whether India, Vietnam, or Kenya is the most useful comparator for analyzing Bangladesh's tax administration reform agenda. Justify your choice with specific reference to structural, contextual, and temporal comparability. (20 marks)

Explain the Nordic Fiscal Compact Principle. Why does it not require Nordic levels of taxation to be relevant in Bangladesh's context? What specific budget design changes would move Bangladesh closer to the virtuous cycle the Nordic model describes? (15 marks)

What are the three main cautionary lessons from India's GST reform for Bangladesh's VAT architecture? For each lesson, specify the design modification in Bangladesh's VAT that it suggests. (12 marks)

Questions for BSS (Economics) Examination

Compare Vietnam's fiscal architecture with Bangladesh's across three dimensions: revenue performance, public investment execution, and anti-corruption institutional design. What accounts for the performance gap and which elements of Vietnam's model are most transferable to Bangladesh? (20 marks)

Design the key provisions of a Bangladesh Fiscal Responsibility and Budgetary Transparency Act modeled on Brazil's Lei de Responsabilidade Fiscal but adapted for Bangladesh's specific institutional context. What are the three most important design choices and why? (15 marks)

What specific lessons does the Kenya Revenue Authority experience offer for Bangladesh's NBR restructuring? What institutional preconditions for successful restructuring does the KRA experience identify? (12 marks)

Questions for MSS (Economics) Examination

Apply the framework of Structural Contextual Comparativism to construct an original comparative fiscal analysis of Bangladesh and three comparator countries of your choice, covering at least five dimensions of fiscal architecture. Based on your comparative analysis, identify the three reforms that would have the highest probability of improving Bangladesh's fiscal performance within a five-year horizon. (35 marks)

Critically evaluate the proposition that Bangladesh's low tax-to-GDP ratio is primarily a reflection of inadequate tax administration rather than inadequate tax policy. What is the relative contribution of policy design and administrative capacity to Bangladesh's revenue underperformance, and what reform priorities does your analysis imply? (25 marks)

CHAPTER THIRTY-THREE: NATIONAL AND INTERNATIONAL CRISIS ASSESSMENT AND EMERGENCY BUDGET PROTOCOLS

33.1 The Architecture of Fiscal Crisis Response: A New Theoretical Framework

The study of how governments adjust their fiscal frameworks in response to crises has been transformed by the events of 2008 to 2009 (global financial crisis), 2020 to 2022 (COVID-19 pandemic), and the ongoing geopolitical and climate crises of 2022 to 2026. These events have generated a substantial body of empirical evidence on what works, what fails, and why in emergency fiscal response, and they have stimulated new theoretical developments that render older frameworks for crisis fiscal management inadequate.

A new definition of Fiscal Crisis Anatomy is introduced here as: the systematic decomposition of an economic or social emergency into its fiscal dimensions, identifying the specific channels through which the crisis affects government revenue, expenditure requirements, and financing capacity, the time distribution of these fiscal effects, their magnitude under different assumptions, and the institutional requirements for an effective fiscal response.

This definition departs from older approaches in which "crisis" was treated as a single undifferentiated shock requiring a single fiscal response. Modern crisis fiscal management recognizes that different crises affect the fiscal system through fundamentally different mechanisms and on different timescales, requiring different institutional responses and different budget instruments.

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A public health emergency, such as COVID-19, affects the fiscal system primarily through expenditure (sudden additional spending on health system surge capacity, social protection for displaced workers, business continuity support) and secondarily through revenue (contraction of economic activity reduces the tax base). The fiscal response must therefore prioritize rapid expenditure mobilization, which tests the flexibility and speed of the budget execution system.

A financial crisis, such as Bangladesh's banking sector NPL crisis, affects the fiscal system primarily through contingent liability crystallization (government guarantees and recapitalization needs) and secondarily through growth effects on the tax base. The fiscal response requires medium-term financing commitments that are contingent on banking sector restructuring performance rather than immediate unconditional expenditure.

A climate disaster, such as a severe cyclone, affects the fiscal system through immediate emergency relief expenditure, reconstruction investment over the medium term, and longer-term fiscal stress from resettlement and livelihood recovery. The fiscal response requires both rapid liquidity and medium-term project financing, often relying on contingency funds, insurance mechanisms, and international climate finance.

A global commodity price shock, such as the food and fuel price spike of 2022, affects the fiscal system primarily through subsidy expenditure inflation (if the government maintains price controls), terms of trade effects on trade tax revenue, and import-dependent program cost increases. The fiscal response must balance subsidy reduction (which reduces fiscal stress) against social protection adequacy (which requires additional expenditure to compensate households for price increases).

33.2 The Fiscal Crisis Severity Classification System

A new classification system for fiscal crises, which this textbook terms the Fiscal Crisis Severity Classification System (FCSCS), provides a structured framework for assessing the magnitude and character of crises for fiscal response planning purposes.

The FCSCS classifies fiscal crises along three dimensions: scope (localized, national, or systemic), magnitude (mild, moderate, severe, or catastrophic as measured by the percentage of GDP in unbudgeted fiscal impact), and reversibility (rapid recovery within one fiscal year, medium-term recovery within two to four fiscal years, or structural where the crisis permanently alters the fiscal environment).

A mild localized rapidly reversible crisis, for example a drought affecting one region's agricultural output for one season, requires activation of contingency fund resources, targeted emergency expenditure in the affected area, and minimal revision of the broader fiscal framework. A catastrophic systemic structurally irreversible crisis, for example the level-5 cyclone scenario that climate models project as increasingly probable for Bangladesh's coastal belt, would require fundamental revision of the entire fiscal framework, including suspension of normal deficit targets, activation of international climate finance mechanisms, and likely restructuring of the medium-term development program to reprioritize reconstruction.

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Bangladesh's fiscal framework currently has no formal FCSCS equivalent. The budget contains a Contingency Fund under Article 89 of the Constitution and a separate Disaster Management Fund, but these are not embedded within a systematic crisis assessment and response framework. The Finance Division has no published protocol for how it would revise the budget in response to a crisis of different scales and characters.

A new principle, the Principle of Pre-Committed Crisis Fiscal Response, holds that governments should design and publicly commit to fiscal response protocols for foreseeable crisis scenarios before those crises occur, specifying what actions will be taken, how quickly, with what institutional authority, and subject to what accountability requirements. Pre-commitment has two advantages over improvised response: it enables faster action, because decisions have already been analyzed rather than having to be made under time pressure, and it reduces the scope for opportunistic fiscal expansion under the cover of emergency that can undermine fiscal sustainability.

33.3 The COVID-19 Fiscal Response: An Anatomy and Assessment

Bangladesh's fiscal response to the COVID-19 pandemic, which has been partially analyzed in earlier chapters of this textbook, deserves systematic anatomical analysis using the Fiscal Crisis Anatomy framework introduced in this chapter.

The COVID-19 crisis affected Bangladesh's fiscal system through the following channels. Revenue decline: the contraction of economic activity in FY2019-20 reduced NBR revenue collection, with VAT receipts from services sectors most severely affected as restaurants, transportation, and retail closed or dramatically reduced operations. The full-year revenue impact was partially offset by the resilience of customs revenue as import volumes, particularly of essential goods, remained relatively stable.

Expenditure increase: the government launched stimulus packages amounting to approximately Tk 121,000 crore (approximately 4.3 percent of GDP), the largest of which was a Tk 30,000 crore credit guarantee scheme for small and medium enterprises, channeled through the banking system. Direct cash transfers to vulnerable households, food distribution, and health system capacity expansion represented additional immediate expenditure. The health system expenditure increase was somewhat lower than might have been expected, reflecting both the relatively mild initial case load in Bangladesh and the budget's existing inadequacy for health spending.

Financing constraint: the government's domestic borrowing increased significantly in FY2019-20 and FY2020-21 to finance the expanded deficit. Bangladesh Bank's purchase of government securities in the primary market provided liquidity but began the process of monetary expansion that would contribute to the inflation surge of 2022 to 2024.

The assessment of Bangladesh's COVID-19 fiscal response is mixed. The speed of business stimulus deployment, while subject to implementation problems in reaching genuine small enterprises rather than politically connected larger firms, was reasonably fast by developing country standards. The adequacy of direct household transfers to the most vulnerable was seriously insufficient, with the National Social Registry's incompleteness preventing targeted

delivery to the poorest households. The health system fiscal response failed to translate additional spending into meaningful surge capacity improvements, reflecting the structural weaknesses in health governance discussed in Chapter Twenty-Six of this volume.

33.4 The Russia-Ukraine War Fiscal Impact on Bangladesh: A Channel Analysis

The Russia-Ukraine war, which began in February 2022, had significant and direct fiscal consequences for Bangladesh that are instructive for understanding how geopolitical crises in distant parts of the world can generate domestic fiscal impacts in vulnerable developing economies.

The primary transmission channels were commodity prices. Russia and Ukraine together account for approximately 30 percent of global wheat exports, significant shares of corn and sunflower oil exports, and Russia is the world's largest exporter of nitrogen fertilizers. The war's disruption of these supply chains produced global commodity price spikes that hit Bangladesh through three fiscal channels simultaneously.

The food security channel operated through the cost of wheat and edible oil imports, which are large in Bangladesh's import basket. Higher global prices increased the import bill, pressured the current account, depleted foreign exchange reserves, and through depreciation of the taka, raised the domestic price of food imports. The welfare cost fell disproportionately on low-income households, increasing the fiscal pressure for social protection expansion precisely when fiscal space was most constrained.

The fertilizer channel was particularly severe for Bangladesh, which subsidizes fertilizer for agricultural production as a food security measure. Global urea prices, heavily influenced by Russian gas prices and Russian export availability, more than doubled from pre-war levels. The fertilizer subsidy bill, which is part of Bangladesh's operating budget, expanded dramatically in FY2021-22 and FY2022-23, consuming fiscal space that would otherwise have been available for development investment.

The energy channel operated through the impact of global LNG prices on Bangladesh's power sector. Bangladesh's expansion of LNG imports to fuel the power generation expansion of the previous decade left the country highly exposed to global natural gas prices, which spiked to record levels in 2022. The government faced a choice between passing through power price increases to consumers, which would reduce inflation in the subsidy bill but increase cost-of-living pressure on households and businesses, or absorbing the cost through expanded energy subsidies, which would protect consumers but blow through the fiscal framework.

The concept of Geopolitical Fiscal Pass-Through Coefficient is introduced here as: the ratio of domestic fiscal impact per unit of geopolitical commodity price shock, reflecting the degree to which a country's fiscal structure amplifies or dampens the domestic fiscal consequences of international commodity market disruptions, a function of the country's import dependence, subsidy architecture, exchange rate regime, and social protection system.

Bangladesh's Geopolitical Fiscal Pass-Through Coefficient is high relative to comparable economies because of the combination of commodity import dependence (food, fuel, fertilizer), a large subsidy architecture that absorbs price shocks fiscally rather than allowing market pass-through, limited foreign exchange buffers that make depreciation-driven inflation amplification more severe, and social protection systems too limited to provide adequate household-level cushioning as an alternative to price subsidies.

Reducing the Geopolitical Fiscal Pass-Through Coefficient is therefore a long-term fiscal resilience objective that should inform energy policy (reducing LNG dependence through renewable energy expansion), agricultural policy (fertilizer efficiency programs that reduce physical subsidy volumes), social protection policy (building the National Social Registry and cash transfer capacity that can replace price subsidies as the primary poor household support mechanism), and exchange rate policy (maintaining adequate reserves to buffer depreciation in crisis periods).

33.5 International Crisis and Aid Architecture: Bangladesh's Fiscal Diplomacy

Bangladesh's engagement with international aid and concessional finance is not merely a matter of fiscal arithmetic but a dimension of fiscal diplomacy: the strategic management of international financial relationships to maximize the volume, quality, and conditionality terms of external finance.

A new concept, Fiscal Diplomatic Capital, refers to the accumulated credibility, relationships, and track record that a government deploys in its negotiations with international financial institutions, bilateral donors, and international capital markets to secure favorable terms for external financing. Fiscal diplomatic capital is built through consistent delivery on reform commitments, transparent fiscal reporting, constructive engagement with creditor institutions even when disagreements exist, and a demonstrated track record of using external finance productively for developmental purposes.

Bangladesh's fiscal diplomatic capital has been a major asset throughout its development trajectory. The country's relationship with the World Bank, initiated in the 1972 reconstruction period, has been continuously productive, surviving political transitions and occasional policy disagreements. The relationship with Japan, Bangladesh's largest bilateral official creditor and donor, reflects decades of infrastructure investment cooperation that has built deep institutional relationships. The IMF arrangement of 2023, while costly in conditionality terms, was negotiated by a government that had maintained dialogue with the Fund even when disagreements were sharpest.

The management of fiscal diplomatic capital in crisis periods is a specialized capability. The interim government's simultaneous engagement with the IMF, World Bank, ADB, and bilateral creditors from August 2024 onward required skilled coordination to ensure that the different reform agendas of different institutions were aligned rather than contradictory, that commitments made to one institution were compatible with those made to others, and that the pace of reform was sufficient to maintain international creditor confidence while remaining politically sustainable domestically. This coordination work, largely invisible to the public, is among the

most important fiscal management functions of the Finance Division and the Economic Relations Division of the Ministry of Finance.

33.6 Climate Change as a Permanent Fiscal Crisis: The New Normal

Climate change represents a qualitatively different type of fiscal crisis from all those discussed so far, because it is not an event but a trend: a progressive and accelerating change in the physical environment that generates a permanently elevated level of fiscal stress, punctuated by increasingly frequent and severe acute events.

The concept of Climate Fiscal Baseline Shift describes the process by which the long-run structural fiscal requirements of a climate-vulnerable country increase as climate change progresses, raising the baseline level of spending needed for disaster preparedness, emergency response, infrastructure maintenance, agricultural support, and coastal protection, without any crisis event having occurred. A country that previously needed to spend X percent of GDP on these functions now needs to spend X plus delta Y, where delta Y increases year by year as climate impacts intensify.

Bangladesh's Climate Fiscal Baseline Shift is already underway. The costs of cyclone protection, river embankment maintenance, coastal zone management, flood control, and climate-sensitive agricultural support have all increased in the past decade as climate impacts have intensified. These costs are not fully reflected in the budget, which treats climate-related expenditure as discretionary development spending rather than as essential maintenance of the country's productive capacity against climate degradation.

A new principle, the Principle of Climate Fiscal Incorporation, holds that climate adaptation and resilience costs should be incorporated into the structural baseline of the national budget as non-discretionary expenditure reflecting the real operating cost of maintaining a habitable and productive national environment under conditions of advancing climate change, rather than being treated as discretionary development spending subject to the same political and fiscal competition as all other ADP investments.

Implementing this principle requires a formal Climate Fiscal Assessment to be conducted alongside the regular budget process, quantifying the climate-related costs embedded in each major budget category and projecting how these costs will evolve under different climate scenarios. Several countries have introduced climate budget tagging systems, including Fiji, Nepal, and the Philippines, that flag climate-related expenditures within the broader budget. Bangladesh has experimented with climate budget tagging through the Finance Division, but the methodology is not yet systematic enough to enable the kind of aggregate climate fiscal accounting that genuine fiscal mainstreaming of climate adaptation would require.

33.7 The Fiscal Architecture of Post-Crisis Recovery

Post-crisis recovery presents distinctive fiscal design challenges that differ from both normal budget management and emergency response. A new framework, the Post-Crisis Fiscal

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Trajectory Model, specifies three phases of post-crisis fiscal management with different optimal strategies.

Phase One, Emergency Stabilization, covers the immediate period from the onset of crisis through the acute phase. The fiscal objective is to provide emergency relief and support while maintaining sufficient fiscal credibility to sustain financing flows. The tools are emergency expenditure from the Contingency Fund, targeted cash transfers, business continuity support, and direct engagement with international creditors to renegotiate or defer debt service where necessary.

Phase Two, Structural Reconstruction, covers the medium-term period of rebuilding physical and institutional damage. The fiscal objective shifts from stabilization to investment: the reconstruction of infrastructure, institutions, and economic capacity in ways that build resilience against future crises rather than merely restoring pre-crisis conditions. This phase requires sustained investment that typically exceeds what can be financed from domestic resources alone, making international financing partnerships and climate finance mobilization critical.

Phase Three, Resilience Institutionalization, covers the long-term period in which the fiscal lessons of the crisis are embedded into permanent institutional changes: new risk management frameworks, strengthened contingency provisions, improved social protection systems, and climate-adaptive infrastructure standards that ensure future crises are managed at lower fiscal cost than the one just experienced.

Bangladesh's recovery from the 2022 to 2024 macroeconomic crisis of reserves decline, inflation, and banking sector stress is currently in Phase One to Phase Two transition, with the IMF stabilization program providing the fiscal anchor for Phase One completion and the medium-term reform agenda sketched in Part Four representing the beginnings of Phase Two. The completion of a genuine Phase Three, in which the institutional improvements are embedded into durable governance structures rather than depending on the political priorities of any single government, remains the most important and most uncertain element of the recovery trajectory.

33.8 Exam Questions: Chapter Thirty-Three

Questions for BEcon Examination

Define Fiscal Crisis Anatomy and apply it to analyze Bangladesh's fiscal response to the COVID-19 pandemic. Identify the three most significant weaknesses in Bangladesh's COVID-19 fiscal response and the institutional changes that would address them. (20 marks)

Explain the Principle of Pre-Committed Crisis Fiscal Response. Design the key elements of a pre-committed fiscal response protocol for a major cyclone disaster affecting the coastal belt of Bangladesh. What levels of Contingency Fund resources should be pre-committed and what triggers should activate their release? (20 marks)

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Define the Geopolitical Fiscal Pass-Through Coefficient. Calculate a rough estimate of its value for Bangladesh based on the 2022 global commodity price shock. What long-run policy changes would reduce this coefficient? (15 marks)

Questions for BSS (Economics) Examination

Explain the concept of Climate Fiscal Baseline Shift. Estimate the magnitude of Bangladesh's current Climate Fiscal Baseline Shift, identifying the major expenditure categories affected and their approximate additional annual cost relative to a non-climate-change baseline. (15 marks)

What is Fiscal Diplomatic Capital? Assess the current state of Bangladesh's fiscal diplomatic capital and identify two specific strategies the interim government should pursue to strengthen it in the 2026 to 2028 period. (12 marks)

Apply the Post-Crisis Fiscal Trajectory Model to analyze Bangladesh's current recovery from the macroeconomic crisis of 2022 to 2024. Which phase is Bangladesh currently in? What are the specific fiscal actions required to complete this phase successfully and transition to the next? (15 marks)

Questions for MSS (Economics) Examination

Develop an original framework for designing Bangladesh's Fiscal Crisis Severity Classification System and the associated pre-committed response protocols for each crisis class. Your framework should cover the full range of foreseeable crisis types, specify the institutional triggers and decision procedures for each level of response, and embed the framework within Bangladesh's existing constitutional and legal architecture. (35 marks)

Critically analyze the proposition that climate change has permanently altered the fiscal architecture of vulnerable developing countries like Bangladesh in ways that render standard fiscal sustainability frameworks inadequate. What new frameworks for fiscal sustainability analysis are required when the climate fiscal baseline is shifting upward indefinitely? (30 marks)

CHAPTER THIRTY-FOUR: EDUCATION FINANCE ARCHITECTURE: INVESTMENT, RETURN, AND STRUCTURAL FAILURE

34.1 A New Theory of Education Finance: The Learning Returns Framework

Education finance has traditionally been analyzed through two competing frameworks. The human capital framework, derived from the work of Theodore Schultz and Gary Becker, treats education expenditure as investment in the productive capacity of workers, justified by the private and social returns to education in the form of higher earnings and higher economic productivity. The social rights framework treats education as a fundamental right that governments are obligated to provide regardless of calculated economic return. Both frameworks

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have been enormously productive, but both also have limitations that a new framework can address.

The Learning Returns Framework, introduced in this textbook, proposes that education fiscal analysis should focus neither on inputs (expenditure per pupil) nor on outputs (enrollment rates, graduation rates) but on outcomes (what children actually learn, can do, and become capable of as a result of education expenditure). The Learning Returns Framework asks: what is the marginal improvement in measurable learning outcomes per additional taka of education expenditure, under different allocation strategies, and how does this vary across the income distribution?

This framework is distinguished by a new definition of education investment adequacy: an education budget is adequate to the extent that it is sufficient to ensure that every child, regardless of their family's income, the remoteness of their location, or the quality of the local school facility, reaches a defined minimum learning standard by the end of each education stage. Adequacy is not defined by expenditure levels but by outcome floors, and its measurement requires assessment systems, not merely accounting systems.

34.2 The Bangladesh Education Budget: A Structural Analysis

Bangladesh's education budget for FY2025-26 represents 1.72 percent of GDP, far below the UNESCO recommended benchmark of 4 to 6 percent and the average for comparable developing countries in South Asia, which approaches 3 to 4 percent. The nominal allocation is Tk 94,710 crore for the Education Division alone, with additional allocations for the Primary and Mass Education Division, making the total significantly larger.

However, nominal allocation analysis misses several critical structural features of Bangladesh's education budget that determine its actual impact. The first structural feature is the teacher salary dominance problem: approximately 70 to 75 percent of the education budget is consumed by teacher salaries and allowances, leaving only 25 to 30 percent for all other education investments including textbooks, school maintenance, learning materials, teacher training, assessment systems, and administrative capacity. In a country where learning outcomes are poor despite high enrollment rates, the imbalance between salary expenditure and quality-improvement expenditure is a direct structural cause of the outcome failure.

A new concept, Education Budget Structural Compression, describes the condition in which the education budget is so dominated by recurrent salary expenditure that the discretionary resources available for quality improvement fall below the minimum threshold required to produce measurable learning outcome gains, leaving additional salary expenditure producing diminishing returns while outcome-critical investments are consistently starved.

The second structural feature is the public-private duality problem. Bangladesh's education system is characterized by a massive parallel private sector, particularly in secondary and tertiary education, where Madrassahs, private colleges, and coaching centers supplement or replace public provision for families that can afford them. The public education budget effectively subsidizes the middle class and upper class, who have more political voice and are better

positioned to capture public school resources, while the poorest households, whose children attend the most understaffed, under-resourced public schools, receive inadequate fiscal support. The fiscal equity of Bangladesh's education allocation is worse than the aggregate figures suggest.

34.3 Learning Outcome Failure and Its Fiscal Causes

ASER (Annual Status of Education Report)-equivalent surveys conducted in Bangladesh, as well as national assessments by the Bangladesh National Assessment System (BNAS), have consistently documented that a substantial proportion of children completing primary education cannot read at grade level or perform basic arithmetic. This learning outcome failure is not primarily a function of enrollment, which is high, but of teaching quality and school management, which are persistently inadequate.

The fiscal causes of teaching quality failure are multiple and interconnected. Teacher recruitment processes, while formally merit-based, are in practice characterized by nepotism and political influence in appointments, particularly in the Non-Government Organization (NGO)-managed schools that receive public subvention. Teacher accountability systems are weakly designed and poorly enforced: teachers are paid whether or not students learn, and the only accountability sanction typically available for persistent non-performance is termination through an extremely cumbersome administrative process that almost never occurs in practice.

Teacher training expenditure in Bangladesh's education budget is one of the most consistently underfunded line items relative to its importance for learning outcomes. The ratio of teacher training spending to teacher salary spending is far below the minimum required to maintain a continuous professional development cycle for the teaching workforce, meaning that most teachers' pedagogical competence remains essentially fixed at the level they achieved in pre-service training, without the regular skill upgrading that evidence shows is required to adapt teaching practices to changing student populations and learning contexts.

A new principle, the Principle of Teacher Fiscal Adequacy, holds that education budget quality should be assessed partly by the adequacy of investment in teacher capability relative to teacher compensation, with the ratio of capability-building expenditure (training, professional development, coaching, assessment-for-learning) to compensation expenditure as a meaningful fiscal health indicator. Education systems that chronically underfund capability building relative to compensation are systematically trading short-term fiscal efficiency for long-run outcome failure.

34.4 Tertiary Education Finance: Access, Quality, and Fiscal Architecture

Bangladesh's tertiary education system, which includes 46 public universities, over 100 private universities, and a large National University affiliate college network, presents distinctive fiscal challenges that differ from those of the primary and secondary systems.

Public universities in Bangladesh receive block grants from the government, with limited accountability for how those grants are used in terms of educational quality or research output.

The block grant system, a legacy of the post-independence period when the University Grants Commission was established to distribute public resources to tertiary institutions, has historically produced significant variation in institutional performance with weak correlation between funding levels and educational quality.

A new concept, Tertiary Education Fiscal Capture, describes the process by which public university resources are captured by internal interest groups, including tenured faculty with secure employment, student political organizations with de facto influence over campus administration, and administrative staff with entrenched positions, at the expense of institutional quality improvement and genuine academic mission. Tertiary education fiscal capture is particularly prevalent in contexts where university governance is weak, faculty unions are politically powerful, and institutional leadership lacks the authority or incentive to make quality-improving resource allocation decisions against organized internal opposition.

The fiscal response to tertiary education fiscal capture requires institutional reforms that go beyond budget allocation changes: strengthening University Grants Commission oversight capacity with meaningful performance measurement, introducing performance-based funding components that tie a portion of the block grant to measurable outputs including graduation rates, research publications, employer satisfaction surveys, and graduate employment outcomes, and empowering university leadership with both the tools and the accountability requirements to manage resources for educational purpose rather than for institutional peace.

34.5 The Education Finance and Economic Development Nexus: New Evidence

New research from 2023 to 2025, drawing on large administrative datasets from countries including Bangladesh, Vietnam, Cambodia, and Ethiopia, has clarified the relationship between education investment and economic development in ways that challenge several conventional assumptions.

First, the evidence now strongly supports a non-linear relationship between education investment and economic growth: investments that raise the floor of basic skills across the entire population produce substantially larger economic returns than investments that extend the education of those who already have adequate basic skills. This finding implies that Bangladesh's education budget priorities should emphasize remedial and foundational skill building at the primary level, which research consistently finds to be the highest-return education investment, rather than expansion of tertiary enrollment among students who are already educationally advantaged.

Second, there is strong new evidence on the fiscal multiplier of education quality improvement. A meta-analysis of studies from low and middle-income countries published in 2024 found that improving learning outcomes to the point where a majority of students can read and perform basic arithmetic fluency at their education stage has a fiscal multiplier of approximately 1.8 over a 15-year horizon: each taka invested in genuine learning improvement at the foundational level returns approximately 1.8 taka in additional government revenue through the tax revenue generated by higher lifetime earnings of educated workers. This fiscal multiplier is substantially above Bangladesh's reported multiplier for ADP infrastructure investment, suggesting that

education quality investment is fiscally more efficient than conventional development accounting recognizes.

The Fiscal Return to Education Quality: the ratio of additional government revenue generated over the 15-year horizon following an educational investment to the initial cost of that investment, disaggregated by education level and quality dimension to enable comparison with other fiscal investment alternatives. This concept, applied consistently in budget analysis, would shift the apparent fiscal attractiveness of education investment substantially upward relative to infrastructure investment, potentially justifying a larger share of the budget for education than current allocation patterns reflect.

34.6 International Students and the Education Trade Account

A dimension of education finance that receives virtually no attention in Bangladesh's budget discourse is the international trade dimension of education. Bangladesh sends large numbers of students abroad for higher education, particularly to India, Malaysia, China, the United Kingdom, Australia, and increasingly the United States. This outflow represents a significant foreign exchange expenditure and an implicit fiscal subsidy to the receiving countries' education systems.

Conversely, Bangladesh receives relatively few international students, despite the potential to develop its tertiary education sector as a regional service exporter. The fiscal logic of education export is compelling: tuition revenue from international students earned in foreign currency represents a tradeable service export that generates foreign exchange, creates high-quality employment for Bangladeshi academics and administrators, strengthens the quality of domestic institutions through the competitive pressure of serving international students, and builds the international networks that support technology transfer and innovation.

A new fiscal concept, the Education Trade Balance, measures the net foreign exchange flow from student mobility: international student tuition receipts minus Bangladeshi student tuition payments abroad. Bangladesh's Education Trade Balance is almost certainly significantly negative, meaning the country is a substantial net importer of education services. Improving this balance requires long-term investment in the quality of tertiary institutions that would make them attractive to international students, which requires precisely the performance-based institutional funding reforms discussed above.

34.7 Exam Questions: Chapter Thirty-Four

Questions for BEcon Examination

Define the Learning Returns Framework for education finance analysis. How does it differ from the human capital framework? Apply it to analyze Bangladesh's primary education budget for FY2025-26, identifying the allocation changes it would recommend. (15 marks)

Explain Education Budget Structural Compression. Using data from Bangladesh's FY2025-26 education budget, estimate the degree of structural compression and calculate the minimum

reallocation within the existing budget that would bring Bangladesh above the minimum threshold for quality improvement investment. (20 marks)

What is the Principle of Teacher Fiscal Adequacy? Using international comparators, assess whether Bangladesh's teacher capability-to-compensation ratio is adequate. What specific budget line changes would improve this ratio within a fiscally neutral framework? (15 marks)

Questions for BSS (Economics) Examination

What is Tertiary Education Fiscal Capture? Identify two specific Bangladeshi public universities where fiscal capture appears to be operating and propose specific institutional reforms that would reduce it. (15 marks)

Explain the Fiscal Return to Education Quality concept. Using the 2024 meta-analysis findings on learning outcome fiscal multipliers, calculate the implied present value of improving foundational literacy across Bangladesh's primary school population and compare this to the present value of an equivalent investment in road infrastructure. (15 marks)

What is Bangladesh's Education Trade Balance and why does it matter fiscally? What policy changes would move Bangladesh toward a more positive Education Trade Balance over a 15-year horizon? (12 marks)

Questions for MSS (Economics) Examination

Develop an original framework for reforming Bangladesh's education finance architecture that would simultaneously improve learning outcomes at the primary level, institutional quality at the tertiary level, and fiscal efficiency across the entire system. Your framework should be grounded in the Learning Returns Framework, address the structural compression and fiscal capture problems identified in this chapter, and be calibrated to the fiscal constraints of Bangladesh's current budget position. (35 marks)

Critically evaluate the claim that Bangladesh's education system has experienced enrollment success and learning failure simultaneously. What are the fiscal policy implications of this pattern for budget design? How should the evidence on fiscal returns to education quality influence the allocation of Bangladesh's fiscal consolidation burden across different expenditure categories? (25 marks)

CHAPTER THIRTY-FIVE: CLIMATE FINANCE, ENVIRONMENTAL BUDGETING, AND THE GREEN FISCAL TRANSITION

35.1 The Political Economy of Climate Finance: A New Framework

Climate finance has become one of the most contentious and rapidly evolving areas of international fiscal governance, precisely because it sits at the intersection of global

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environmental necessity, national development aspirations, historical justice claims, and geopolitical competition for economic influence. Bangladesh's engagement with the global climate finance architecture is both a matter of receiving financial support for adaptation and a political-economic opportunity to leverage its moral authority as one of the world's most climate-vulnerable countries.

A new concept, Climate Fiscal Moral Authority, refers to the political resource that accrues to countries that suffer severe climate impacts disproportionate to their contribution to cumulative greenhouse gas emissions, enabling them to make credible claims on international public resources and to shape global climate finance architecture in ways that reflect genuine developmental equity rather than the preferences of major emitting economies.

Bangladesh is among the world's most powerful holders of Climate Fiscal Moral Authority. Its contribution to cumulative global greenhouse gas emissions is minimal, approximately 0.35 percent of the global total, while its exposure to climate impacts is among the highest in the world: sea level rise threatens 17 percent of the country's landmass; approximately 30 million people live in coastal areas vulnerable to storm surge; increasing cyclone intensity is a documented trend; and temperature increases are already affecting agricultural yields and labor productivity. The credibility of this claim is amplified by Bangladesh's strong development record: having achieved dramatic poverty reduction despite extreme climate exposure demonstrates that the country is not simply seeking climate finance as a form of development aid under a different label.

35.2 Green Bonds and Bangladesh's Sovereign Green Bond Program

The global green bond market, which reached issuance volumes exceeding USD 500 billion in 2023 and has grown to become one of the most dynamic segments of international capital markets, represents a potential source of financing for Bangladesh's green investment agenda that goes beyond traditional aid and concessional lending.

Bangladesh issued its first sovereign green bond in 2023, a modest pilot that established the legal and administrative infrastructure for sovereign green borrowing and enabled initial engagement with international green bond investors. The conditions for expanding Bangladesh's sovereign green bond program, however, depend on several institutional prerequisites that are still being developed.

A new definition of Sovereign Green Bond Fiscal Credibility is: the composite institutional quality indicator that international green bond investors assess in determining whether a sovereign issuer's environmental commitments are sufficiently credible, measurable, and independently verifiable to justify the green premium pricing that environmentally oriented investors will pay for green-labeled bonds over conventional bonds of equivalent credit quality.

Bangladesh's Sovereign Green Bond Fiscal Credibility is currently moderate at best. The country has a Bangladesh Climate Change Strategy and Action Plan (BCCSAP) and has established a Climate Change Trust Fund, but the governance of green bond proceeds, including the independent verification of their environmental use and the reporting standards required by

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international investors, is not yet at the level required to achieve meaningful green premiums in international markets. Building this credibility requires investing in the institutional infrastructure of environmental finance: independent green bond verification, project-level emissions accounting, climate risk disclosure, and alignment with international standards such as the Climate Bonds Initiative taxonomy.

35.3 The Fiscal Architecture of Renewable Energy Transition

Bangladesh's energy sector represents one of the most important fiscal challenges and opportunities of the next decade. The country's rapid expansion of electricity generation capacity from 2010 to 2020, which added thousands of megawatts of new generation capacity and substantially improved urban electricity reliability, was achieved primarily through gas-fired and oil-fired power plants, many of which are operated under Independent Power Producer (IPP) contracts that contain capacity payment obligations: the government must pay for the plant's available capacity whether or not the electricity is actually dispatched.

The Capacity Payment Fiscal Trap, introduced here as a new concept, describes the condition in which the government's contractual obligations to pay for installed power generation capacity create a fiscal liability that grows with generation expansion, regardless of whether that capacity is efficiently utilized, creating a strong fiscal incentive against the transition to variable renewable energy sources that may require maintaining backup capacity for grid stability. In Bangladesh's case, the capacity payment obligations to IPPs, which have been repeatedly criticized in the domestic media and by civil society organizations as excessively generous, represent a fiscal commitment running into tens of thousands of crore taka annually that constrains the energy sector budget and makes the fiscal argument for renewable energy transition more complex than simple cost comparisons suggest.

The resolution of the Capacity Payment Fiscal Trap requires a legally complex renegotiation or orderly retirement of existing IPP contracts at the end of their terms, combined with a renewable energy investment program that is designed from the beginning with fiscal sustainability principles embedded: competitive procurement rather than negotiated contracts, performance bonds that hold investors accountable for delivery, and long-term power purchase agreement pricing that reflects the full lifecycle cost of renewable generation including grid integration.

Bangladesh's fiscal architecture for renewable energy transition also requires addressing the subsidy structure. The existing energy subsidy regime, which maintains below-market electricity prices for households and certain industries, creates a fiscal drag that constrains investment in the sector by reducing the apparent commercial viability of new generation investments. Reform of energy pricing, moving toward cost-reflective tariffs with targeted subsidies for low-income households, would simultaneously reduce the fiscal burden of blanket subsidies, improve the investment climate for renewable energy, and send the price signals needed to drive efficiency improvements in energy use.

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35.4 Bangladesh's Loss and Damage Finance Claim

The COP27 climate conference in November 2022 established a Loss and Damage finance mechanism for developing countries already experiencing uncompensable climate losses and damages, a breakthrough in international climate finance negotiations that Bangladesh's diplomats had worked toward for over a decade. The COP28 conference in 2023 operationalized this mechanism with initial contributions from developed countries, though at levels far below the scale of need estimated by researchers and advocacy organizations.

A new concept, Loss and Damage Fiscal Quantification, describes the methodology for calculating the financial cost of climate-related losses and damages that cannot be addressed through adaptation measures alone, including losses from permanent land inundation, irreversible ecosystem degradation, lost livelihoods from climate-driven migration, and cultural and heritage losses from climate displacement. This quantification is essential for Bangladesh to make credible claims on the Loss and Damage mechanism and for the Finance Division to properly account for the fiscal costs of climate change that have already been absorbed by the public budget without explicit recognition.

Bangladesh's quantification of its own Loss and Damage costs is incomplete. The annual fiscal cost of cyclone response, coastal erosion, salinity intrusion, and heat-stress-related productivity losses has been partially estimated by the Bangladesh Centre for Advanced Studies and international research teams, with aggregate estimates ranging from 2 to 3 percent of GDP annually. But a comprehensive fiscal accounting of Loss and Damage that would serve both as a domestic budget planning tool and as an international negotiating resource for the Loss and Damage mechanism does not yet exist as a formal government document.

The principle that should govern Bangladesh's approach to Loss and Damage fiscal accounting, which this textbook proposes as the Principle of Climate Fiscal Reparation, holds that the costs of climate change already being borne by Bangladesh's public finances represent a moral and legal claim on the international community that should be systematically quantified, documented, and formally presented in both domestic budget documents and international diplomatic forums.

35.5 Green Budgeting: Methodology and Bangladesh Application

Green budgeting, also known as climate budget tagging, is the practice of systematically identifying and marking climate-relevant expenditure within the national budget, enabling aggregate assessment of climate finance flows, evaluation of whether public spending is aligned with climate commitments, and communication to international partners about domestic climate finance contributions.

A new definition of Green Budget Integrity is: the quality of a government's climate budget tagging system as measured by the comprehensiveness of its coverage (the proportion of climate-relevant expenditure that is tagged), the accuracy of its classification (the extent to which tagged expenditure genuinely addresses climate objectives rather than greenwashing), the transparency of its methodology (whether the tagging criteria are publicly disclosed and independently

reviewable), and the usefulness of its outputs (whether the tagging information is used in budget decision-making rather than merely in reporting).

Bangladesh's existing climate budget tagging system, while representing meaningful progress over no tagging at all, has significant green budget integrity limitations. Coverage is incomplete, with some climate-relevant expenditure in sectors including transport, urban development, and agriculture not tagged. Classification accuracy is variable, with some tagged expenditure reflecting development investment with incidental climate co-benefits rather than deliberate climate-focused spending. And the tagging output has not yet been systematically incorporated into budget decision-making, remaining primarily a reporting tool for international communication.

Improving green budget integrity requires a phased approach: in the first phase, comprehensive coverage of clearly climate-relevant budget lines across all ministries, using established international taxonomies; in the second phase, quality review of tagged expenditure to ensure classification accuracy, with independent review by the Finance Division's dedicated climate budget team; and in the third phase, integration of climate budget data into the MTBF process, requiring ministries to report on progress toward climate targets as part of their annual performance reporting to the Finance Division.

35.6 The Fiscal Architecture of Flood Management: An In-Depth Case Study

Flood management in Bangladesh is simultaneously a public good of immense economic value, a fiscal liability of considerable scale, and a climate adaptation priority of the highest urgency. It offers an illuminating case study in how the principles of environmental budgeting interact with the institutional realities of a developing country's fiscal system.

Bangladesh's flood management infrastructure, including embankments, sluice gates, pump drainage systems, and early warning networks, represents one of the largest accumulated investments in public capital in the country's history. The maintenance of this infrastructure, which requires regular inspection, repair, and reinforcement against progressive deterioration from flooding, erosion, and structural aging, is among the most important and most consistently underfunded elements of the public budget.

A new concept, Infrastructure Fiscal Depreciation Rate, describes the rate at which the economic value of public infrastructure declines in the absence of adequate maintenance expenditure, generating an implicit fiscal liability that appears nowhere in the formal budget but represents a real claim on future public resources when deferred maintenance reaches a critical threshold that requires expensive rehabilitation or reconstruction rather than routine upkeep.

Bangladesh's flood infrastructure has been characterized by chronic maintenance underfunding that has generated a large infrastructure fiscal depreciation liability. The Water Development Board, responsible for embankment maintenance, consistently receives less than its maintenance budget requirements, forcing prioritization among competing maintenance needs and allowing the lowest-priority embankments to degrade. When a degraded embankment fails during a cyclone or flood, the reconstruction cost can be 10 to 30 times the annual maintenance

expenditure that would have prevented the failure. This ratio, the Deferred Maintenance Fiscal Multiplier, is among the most unfavorable in the entire public investment portfolio: neglecting maintenance to save money today produces extremely expensive reconstruction costs in the near future.

The fiscal management implication is that flood infrastructure maintenance should be treated not as a discretionary operating budget line but as an infrastructure asset preservation obligation, with minimum maintenance standards defined in technical terms and the fiscal resources required to meet those standards protected from budget compression in the same way that debt service obligations are protected. This would require a fundamental change in how the Bangladesh budget treats maintenance expenditure relative to new construction, a distinction that the current budget classification system does not adequately enforce.

35.7 International Climate Finance Flows to Bangladesh: A Fiscal Assessment

Bangladesh's access to international climate finance through bilateral and multilateral channels has grown significantly over the past decade. The Green Climate Fund (GCF), the Global Environment Facility (GEF), the Adaptation Fund, and bilateral climate programs from Japan, the United Kingdom, Germany, and Scandinavian countries have all contributed to Bangladesh's climate investment portfolio.

However, international climate finance flows to Bangladesh have several structural limitations that constrain their fiscal impact. First, grants constitute only a small proportion of total climate finance flows, with the majority provided as loans, often at near-commercial terms. When climate adaptation investments are financed by loans that must be serviced from the government budget, they add to the debt burden while addressing climate needs that are driven by global emissions to which Bangladesh has barely contributed. The fiscal justice argument for grant financing of adaptation in highly vulnerable low-emitting countries is compelling and should be a central element of Bangladesh's international climate finance diplomacy.

Second, international climate finance is heavily concentrated on mitigation, particularly renewable energy transition, rather than on adaptation to unavoidable climate change that Bangladesh must fund regardless of global mitigation outcomes. This concentration reflects the preferences of major financiers who are investing in global public goods (emission reductions that benefit everyone) rather than in country-specific adaptation needs. Bangladesh's fiscal interest is the opposite: it needs adaptation financing more urgently than mitigation financing, because the climate changes already locked in by historical emissions will drive adaptation costs whether or not global mitigation is successful.

Third, the administrative requirements of international climate finance programs, including complex appraisal processes, stringent fiduciary standards, and demanding reporting requirements, impose transaction costs on recipient governments that can absorb a significant share of the administrative capacity that should be directed at implementation. A new concept, Climate Finance Administrative Drag, describes the ratio of administrative and compliance costs to total climate finance received, measuring the efficiency loss from the overhead required to access and manage international climate finance. Reducing climate finance administrative drag

through direct access arrangements, simplified grant mechanisms, and programmatic rather than project-by-project financing would significantly improve the fiscal efficiency of Bangladesh's climate finance portfolio.

35.8 Exam Questions: Chapter Thirty-Five

Questions for BEcon Examination

Define Climate Fiscal Moral Authority. How can Bangladesh most effectively deploy its climate fiscal moral authority in international climate finance negotiations? What specific institutional investments would strengthen the credibility of its moral authority claims? (15 marks)

Explain the Capacity Payment Fiscal Trap. Using data on Bangladesh's IPP contracts, estimate the annual fiscal burden of capacity payments and calculate the fiscal cost differential per kilowatt-hour between keeping existing gas IPPs and transitioning to new solar generation at current international cost levels. (20 marks)

What is Green Budget Integrity? Using the four-dimension definition provided in this chapter, assess Bangladesh's current climate budget tagging system on each dimension and propose specific improvements for each. (15 marks)

Questions for BSS (Economics) Examination

Explain the Deferred Maintenance Fiscal Multiplier concept. Using the Bangladesh Water Development Board's embankment maintenance experience as a case study, estimate the magnitude of this multiplier and its implications for optimal budget allocation between maintenance and new construction. (15 marks)

What is Climate Finance Administrative Drag? Propose three specific institutional arrangements that would reduce administrative drag in Bangladesh's international climate finance portfolio while maintaining adequate fiduciary standards. (12 marks)

Explain the Principle of Climate Fiscal Reparation. How should Bangladesh operationalize this principle in both domestic budget planning and international climate diplomacy? What specific documentation and institutional arrangements are required? (12 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive fiscal architecture for Bangladesh's climate transition over the period 2026 to 2041, incorporating green bond issuance, Loss and Damage claims, adaptation investment finance, energy transition fiscal management, and green budget integrity reforms. Your architecture should be fiscally sustainable within Bangladesh's debt capacity, maximize concessional and grant financing, and align with the principles introduced in this chapter. (35 marks)

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Critically evaluate the current state of international climate finance in meeting the adaptation needs of highly vulnerable developing countries like Bangladesh. What reforms to the international climate finance architecture would most significantly improve its fiscal impact for Bangladesh, and how should Bangladesh use its climate fiscal moral authority to advocate for these reforms? (30 marks)

CHAPTER THIRTY-SIX: THE FISCAL SOCIOLOGY OF TAX COMPLIANCE: NORMS, INSTITUTIONS, AND THE CULTURE OF FISCAL CITIZENSHIP

36.1 Beyond Deterrence: A New Framework for Tax Compliance Theory

The dominant model of tax compliance in fiscal economics for most of the past fifty years has been the Allingham-Sandmo model, published in 1972, which treats tax evasion as a rational expected utility calculation: a taxpayer will evade taxes up to the point where the expected benefit of evasion, the tax saved, equals the expected cost, the probability of detection multiplied by the penalty. From this perspective, improving compliance requires either increasing audit probability or increasing penalties, or both.

This model has been empirically challenged by decades of evidence showing that compliance levels are far higher than the model predicts given observed audit rates and penalties, and that compliance varies across countries and cultures in ways not explained by enforcement parameters. The behavioral economics revolution in tax compliance research, building on the work of Elinor Ostrom on collective action, Dan Ariely on behavioral ethics, and the "tax morale" literature pioneered by Bruno Frey and colleagues, has produced a richer model in which compliance is determined by a combination of deterrence, procedural justice perceptions, social norms about civic obligation, trust in government, and the perceived fairness of the tax system.

A new concept, Fiscal Social Capital, is introduced here as: the aggregate of trust relationships, civic norms, and reciprocity expectations between citizens and the state that determine the extent to which voluntary tax compliance exceeds what pure deterrence calculus would predict. High fiscal social capital means that citizens pay taxes because they believe it is the right thing to do, because they trust the government to use the money well, and because they perceive that others in their community are also complying. Low fiscal social capital means that non-compliance is socially normalized, that the state is perceived as extractive rather than reciprocal, and that compliant taxpayers feel foolish relative to their non-compliant peers.

Bangladesh's fiscal social capital is low by most measures. Surveys of business owners and professionals consistently find that tax evasion is perceived as normal and rational rather than as ethically problematic. Trust in the NBR as an institution is low, driven by perceptions of arbitrary enforcement, corruption, and harassment of compliant taxpayers while influential non-compliers escape liability. The social norm of non-compliance is self-reinforcing: as long as the peer group norm is evasion, compliant individuals feel disadvantaged rather than civic.

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36.2 The Fiscal Citizenship Doctrine

A new doctrine, the Doctrine of Fiscal Citizenship, holds that sustainable tax systems in democratic societies depend on the cultivation of fiscal citizenship: a civic identity component that includes payment of taxes as a constitutive element of full membership in the national community, rather than as an involuntary extraction imposed by a coercive state.

Fiscal citizenship is not merely an attitude; it is a set of institutional relationships and practices that the state must actively cultivate through its own behavior. The state earns fiscal citizenship from its population by demonstrating that tax revenue is used honestly, transparently, and for purposes that the population values; by treating taxpayers with respect and professionalism rather than as suspects or targets; by making tax compliance convenient, clear, and accessible rather than burdensome and opaque; and by enforcing compliance against high-profile evaders at the top of the income and wealth distribution, demonstrating that the fiscal burden is shared rather than concentrated on those too weak to avoid it.

Bangladesh's fiscal citizenship deficit is multi-causal but has some specific roots that are addressable through fiscal governance reform. The most important is the demonstrable unfairness of enforcement patterns. Studies of NBR enforcement in Bangladesh consistently find that audit attention is disproportionately focused on formally registered small and medium enterprises, which are visible and vulnerable to administrative pressure, while large informal sector operators and elite professionals who conduct business entirely in cash or through nominee structures face negligible enforcement. When the most compliant taxpayers face the most scrutiny while the most non-compliant face the least, the fiscal citizenship incentive is precisely inverted from what social norm research suggests is required.

36.3 The Psychology of VAT and Indirect Tax Burden Perception

An important but underanalyzed dimension of Bangladesh's tax policy is the psychology of how taxpayers perceive and respond to different tax instruments. Research in behavioral taxation, building on findings by Raj Chetty and colleagues on the psychology of sales tax visibility, demonstrates that the salience of tax burden significantly affects both compliance behavior and political support for taxation.

VAT in Bangladesh, as in most countries, is embedded in the prices paid by consumers rather than charged as a separate visible addition to those prices. This design choice, which is standard internationally, has the behavioral consequence of reducing the perceived burden of taxation relative to a system where the same tax is charged as a visible additional line on every receipt. Reduced salience is often defended as reducing taxpayer resistance, but it has a double-edged character: it may reduce non-compliance driven by tax resentment, but it also reduces the informational content available to citizens for evaluating whether the government's tax extraction is proportionate to the services received.

A new principle, the Principle of Fiscal Burden Transparency, holds that governments should design their tax systems to ensure that citizens have sufficient information to understand the aggregate tax burden they bear, even if individual transactions do not make that burden fully

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visible, through mechanisms including comprehensive tax statements, annual personal tax accounts showing total taxes paid across all channels, and clear public reporting that connects revenue collection to service delivery outcomes.

36.4 Tax Administration and the Taxpayer Experience: Evidence from Bangladesh

The quality of the taxpayer experience in interacting with the NBR is a critical determinant of both compliance rates and fiscal social capital. Evidence from taxpayer surveys in Bangladesh, including work by the CPD and the Policy Research Institute, documents an experience that is predominantly negative: taxpayers report uncertainty about their obligations, difficulty in obtaining clear guidance, arbitrary treatment by assessors, a perception that the system rewards those with connections rather than those who comply honestly, and fear of harassment if they attract administrative attention even through legitimate means.

A new concept, the Taxpayer Experience Fiscal Elasticity, describes the responsiveness of voluntary compliance behavior to changes in the quality of the taxpayer experience, holding deterrence parameters constant. High taxpayer experience fiscal elasticity means that investments in making the tax compliance process clearer, fairer, faster, and more respectful produce significant compliance gains without requiring increased enforcement effort. Evidence from taxpayer satisfaction surveys in countries including Estonia, Rwanda, and New Zealand suggests that taxpayer experience improvements can produce compliance gains of 5 to 15 percent among previously non-compliant populations, representing fiscal returns to service quality investment that rival those of enforcement intensification.

For Bangladesh, the implication is that the NBR's investment agenda should include substantial allocation to improving the taxpayer experience: simplifying return forms, improving the quality of taxpayer education and assistance, introducing reliable complaint and dispute resolution mechanisms, and measuring taxpayer satisfaction as a formal performance indicator for revenue administration management. These investments, while modest in fiscal cost, can produce disproportionate compliance gains by shifting fiscal social capital in the direction of greater trust and greater civic engagement.

36.5 The Informal Economy and Its Fiscal Management

Bangladesh's informal economy, which accounts for an estimated 40 to 55 percent of GDP depending on methodology, represents simultaneously the largest single source of fiscal leakage and the most difficult target for conventional tax administration. Workers and businesses in the informal economy do not register with revenue authorities, do not maintain the accounting records required for tax assessment, and operate in physical and social environments that make conventional enforcement extremely costly relative to the revenue at stake.

A new definition of Fiscal Informality Gradient is: the spectrum of economic actors from fully formal (registered, regulated, audited, fully compliant) through semi-formal (registered but partially compliant) to fully informal (unregistered, unregulated, beyond the fiscal system), measuring the distribution of economic activity across this spectrum and identifying the marginal cost of compliance for actors at different points in the gradient.

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The fiscal management of informality requires different strategies for different points on the gradient. For fully informal actors, the priority is registration rather than immediate full compliance: reducing the barriers to entering the formal economy by simplifying registration requirements, eliminating bureaucratic hurdles, offering presumptive tax regimes that are affordable for micro-enterprises, and ensuring that formal status brings meaningful benefits including access to financial services, contract enforcement, and public procurement. For semi-formal actors, the priority is closing the gap between registered status and actual compliance through better data matching and targeted audit. For fully formal actors, the priority is maintaining the compliance cost at a level that does not incentivize informalization of activities that are currently formal.

36.6 Exam Questions: Chapter Thirty-Six

Questions for BEcon Examination

Define Fiscal Social Capital. Using evidence from Bangladesh's tax compliance environment, assess Bangladesh's current stock of fiscal social capital. What specific government behaviors have depleted fiscal social capital and what reforms would rebuild it? (15 marks)

Explain the Doctrine of Fiscal Citizenship. Identify two specific institutional reforms to the NBR that would help cultivate fiscal citizenship in Bangladesh. For each reform, explain the behavioral mechanism through which it would improve compliance. (15 marks)

What is the Taxpayer Experience Fiscal Elasticity? Design a taxpayer experience improvement program for the NBR that would be fiscally neutral to implement but would achieve a 10 percent improvement in voluntary compliance among registered but non-compliant taxpayers. (15 marks)

Questions for BSS (Economics) Examination

Explain the Fiscal Informality Gradient. For each segment of the gradient, identify the most effective fiscal management strategy and estimate its potential revenue impact for Bangladesh. (15 marks)

How does the Principle of Fiscal Burden Transparency differ from simple tax transparency? Propose three specific measures the Bangladesh government could implement to improve fiscal burden transparency for citizens across the income distribution. (12 marks)

What does research on the psychology of VAT salience imply about the design of Bangladesh's consumer taxation system? Should Bangladesh consider visible VAT charging at the point of sale? Analyze the compliance and political economy implications of such a change. (12 marks)

Questions for MSS (Economics) Examination

Develop an original theory of fiscal social capital accumulation and depletion that is grounded in the behavioral economics literature and specifically applicable to Bangladesh's institutional

context. Your theory should identify the key determinants of fiscal social capital, specify the conditions under which it increases or decreases, and propose a set of measurable indicators that would enable the Finance Division to track changes in fiscal social capital over time. (30 marks)

Critically assess the argument that Bangladesh's informal economy represents a fundamental fiscal challenge that cannot be addressed through conventional tax administration reform. What structural changes to the economic and regulatory environment, beyond NBR reform, are required to progressively reduce fiscal informality in Bangladesh? (25 marks)

CHAPTER THIRTY-SEVEN: THE FUTURE OF BANGLADESH'S FISCAL STATE: PATHWAYS, SCENARIOS, AND THE PHILOSOPHY OF FISCAL BECOMING

37.1 The Concept of the Developmental Fiscal State: A New Definition

The concept of the developmental state, associated primarily with scholars like Chalmers Johnson, Peter Evans, and Alice Amsden, describes a form of state capitalism in which the government actively shapes industrial structure, manages comparative advantage, and allocates investment strategically to drive rapid economic transformation. This concept requires updating for the fiscal context of the twenty-first century and for the specific circumstances of Bangladesh.

A new concept, the Developmental Fiscal State, describes a government that uses its full fiscal toolkit, including revenue architecture, expenditure priorities, intergovernmental transfers, debt management, and fiscal rules, not merely to maintain macroeconomic stability and fund public services but to actively shape the conditions for broad-based, environmentally sustainable, and institutionally robust economic transformation. The Developmental Fiscal State is distinguished from both the minimal state (which limits fiscal action to provision of basic public goods) and the rentier state (which distributes resource rents without developmental purpose) by its explicit commitment to using fiscal instruments to address market failures, build institutional capabilities, and distribute the gains from growth in ways that maintain social cohesion and political sustainability.

Bangladesh's fiscal system has elements of the Developmental Fiscal State, particularly in its infrastructure investment program and its use of fiscal incentives for export manufacturing. But it lacks the two institutional features that distinguish the most successful developmental fiscal states from less successful ones: the capacity to evaluate the development return on fiscal investments and withdraw support from underperforming activities, and the political architecture that makes this performance-conditional support credible rather than captured by the interests of incumbent beneficiaries.

37.2 Three Fiscal Scenarios for Bangladesh: 2026 to 2036

The trajectory of Bangladesh's fiscal system over the next decade will be shaped by the interaction of three sets of variables: the quality of governance reform (will the institutional

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improvements discussed throughout this textbook actually be implemented and sustained?), the trajectory of external conditions (will the global economy provide a favorable growth environment, or will geopolitical disruption, climate shocks, and trade fragmentation create persistent headwinds?), and the quality of Bangladesh's fiscal diplomacy and international positioning.

Based on these variables, three plausible fiscal scenarios for Bangladesh from 2026 to 2036 can be constructed.

Scenario One: The Reform Dividend. In this scenario, the governance reforms initiated by the interim government are sustained and deepened by the elected government that follows, with particular success in revenue administration modernization, banking sector resolution, and digital government deployment. Tax-to-GDP ratio rises to 10 to 11 percent by 2030. Banking sector NPLs are brought below 8 percent of total assets through credible resolution. iBAS++ coverage extends to local government and autonomous bodies. The National Social Registry is completed and linked to a universal cash transfer architecture. LDC graduation in November 2026 is managed without a significant loss of export competitiveness through successful trade agreement negotiations and productivity improvements in the garment sector. GDP growth recovers to 6 to 7 percent by 2027 and is sustained. By 2036, Bangladesh is firmly in lower-middle-income status with a functioning fiscal state capable of financing the public investments required for upper-middle-income transition.

Scenario Two: Stagnant Incrementalism. In this scenario, reform proceeds at the pace Bangladesh has historically achieved: faster than reversal, slower than transformation. Tax-to-GDP rises to 9 percent by 2030, adequate to fund existing commitments but insufficient to expand fiscal capacity for new challenges. Banking sector NPLs decline slowly, with periodic recurrence as political economy dynamics continue to favor connected lending. LDC graduation causes moderate export disruption that is managed but not fully offset. Climate costs increase gradually, consuming an expanding share of the budget without triggering the comprehensive climate fiscal mainstreaming that would manage them most efficiently. GDP growth stabilizes at 4 to 5 percent, adequate for continued poverty reduction but insufficient for rapid structural transformation. By 2036, Bangladesh is larger and more prosperous but structurally not fundamentally different from today, with the same fiscal vulnerabilities and the same governance deficits.

Scenario Three: Fiscal Fragility and Crisis Recurrence. In this scenario, reform efforts fail to overcome political economy resistance. The NBR restructuring is abandoned. Banking sector resolution is partial and cosmetic. The IMF program is not completed, triggering a loss of international creditor confidence. A major climate event (a category-5 cyclone or extended river flood of historical scale) strikes before the fiscal resilience architecture is in place, generating emergency expenditure that cannot be accommodated within a constrained fiscal framework. Exchange rate depreciation accelerates, debt service costs mount, and the fiscal space for development investment is compressed to historical lows. GDP growth falls below 4 percent. Social protection coverage remains inadequate. By 2036, Bangladesh has lost significant development ground relative to its peers and faces a genuine debt sustainability crisis.

The difference between Scenario One and Scenario Three is not primarily technical: the knowledge of what needs to be done is available. The difference is political: whether the institutional and political conditions can be created for sustained reform execution against organized resistance.

37.3 The Philosophy of Fiscal Becoming: A New Framework

This textbook has introduced multiple new philosophical frameworks: Sovereign Developmental Fiscalism, Achievable Transformation, Institutional Fiscal Structuralism, Capability Returns Assessment, and others. The concluding philosophical contribution of Part Five is a framework that synthesizes these within a broader philosophical concept: Fiscal Becoming.

Fiscal Becoming is a philosophy of fiscal governance that holds that a state's fiscal system is not a fixed architecture but a dynamic process of continuous institutional evolution, shaped by learning, by the changing claims of an evolving society, and by the accumulated experience of what works and what fails in the specific historical and institutional context of that society. Fiscal Becoming is opposed both to fiscal conservatism (which treats existing institutions as adequate and change as risky) and to fiscal radicalism (which treats transformation as achievable through political will alone without regard for institutional capacity and path dependency). It holds that the appropriate pace of fiscal change is the pace at which genuine institutional learning can occur: fast enough to be meaningful, slow enough to be absorbing.

Applied to Bangladesh, Fiscal Becoming implies that the country's fiscal trajectory should be understood not as a movement toward a fixed destination (Nordic tax ratios, Singaporean institutional efficiency, Japanese infrastructure quality) but as a continuous process of improvement from within its own institutional history, learning from international experience but never simply importing it, building genuine fiscal capacity through the accumulation of successful reform experience rather than through the implementation of externally designed blueprints.

The Doctrine of Fiscal Trajectory Continuity, derived from the Fiscal Becoming philosophy, holds that the most important fiscal governance success metric for Bangladesh in any given period is not whether specific numerical targets were achieved but whether the trajectory of improvement across multiple institutional dimensions, including revenue performance, accountability quality, implementation effectiveness, and transparency, is positive, continuous, and accelerating. A trajectory that improves by 2 percentage points of tax-to-GDP over three years is more fiscally valuable than a plan that promises 5 percentage points but delivers none because institutional conditions were not created for successful implementation.

37.4 The University, Research, and Budget Policy Nexus: Building Fiscal Analytical Capacity

A dimension of Bangladesh's fiscal governance challenge that receives insufficient attention in standard analyses is the quality of domestic research and analytical capacity that supports fiscal decision-making. The Finance Division makes decisions with profound consequences for 170 million people, and the analytical foundations of those decisions should ideally draw on a rich

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ecosystem of domestic research institutions, university departments, independent think tanks, and professional networks that generate evidence specifically relevant to Bangladesh's context.

The state of that ecosystem is uneven. Bangladesh has high-quality research institutions including the Bangladesh Institute of Development Studies, the Centre for Policy Dialogue, and the Policy Research Institute, which produce rigorous analysis of fiscal and economic questions. Several university economics departments produce good graduate thesis work on fiscal topics. But the connections between this research community and the Finance Division's decision-making processes are weak: research findings are often published long after the relevant budget decisions have been made, there is no formal mechanism for incorporating independent research into the budget formulation process, and the government's fiscal data sharing with the research community is insufficient for the most technically demanding empirical work.

A new concept, the Fiscal Intelligence Ecosystem, describes the integrated network of government analytical units, independent research institutions, university departments, think tanks, and international knowledge partnerships that collectively generates the evidence base for fiscal decision-making in a high-quality governance system. The fiscal intelligence ecosystem is a public good that requires active investment to maintain, because neither market forces nor individual government agencies will produce the optimal level of independent fiscal analysis.

37.5 The Medium-Term Fiscal Vision: The 2036 Benchmark

Bangladesh's Medium-Term Long-Run Tax Strategy (MLTRS) targets a tax-to-GDP ratio of 10.5 percent by FY2035. While this target has been discussed in earlier chapters, it is worth situating within the broader fiscal vision for 2036 that Part Five's analysis implies.

By 2036, a fiscally transformed Bangladesh should have achieved seven measurable benchmarks. First, a tax-to-GDP ratio of at least 10.5 percent, with the revenue architecture restructured to be more progressive, broader-based, and less dependent on indirect taxation. Second, a banking sector in which NPLs are below 8 percent of total assets, banking sector supervision is genuinely risk-based, and no new banking crisis requiring public recapitalization has occurred since the 2024 to 2026 resolution. Third, a social protection system that reaches 100 percent of the poorest quintile with adequate transfers indexed to inflation. Fourth, an ADP with an implementation rate consistently above 90 percent, a project portfolio reduced to 800 to 900 projects funded at adequate levels, and a completion-first principle institutionalized in project approval procedures. Fifth, a health budget at 2 percent of GDP with a universal health coverage architecture that has reduced out-of-pocket expenditure below 50 percent of total health spending. Sixth, an education budget at 3 percent of GDP with learning outcome improvement documented by independent assessments showing that at least 80 percent of children completing primary school are literate and numerate. Seventh, a climate fiscal architecture including a fully operational climate budget tagging system, a completed Loss and Damage quantification framework, a sovereign green bond program at meaningful scale, and renewable energy reaching at least 40 percent of generation capacity.

These seven benchmarks are not utopian; they are achievable within Bangladesh's fiscal constraints if the governance reforms discussed throughout this textbook are successfully

implemented. But they require sustained political will, institutional investment, and the quality of fiscal analysis that this textbook is designed to support.

37.6 The LDC Graduation Challenge: Final Fiscal Assessment

Bangladesh is scheduled to graduate from Least Developed Country status in November 2026, subject to final confirmation at the United Nations. This graduation, while reflecting genuine economic progress, creates a set of fiscal challenges that have been mentioned throughout this textbook but deserve final systematic treatment.

The fiscal consequences of LDC graduation operate through three primary channels. The trade preference channel is the most discussed: graduation will progressively phase out Bangladesh's access to duty-free, quota-free market access in major export markets, including the European Union's Everything But Arms (EBA) arrangement, which currently allows Bangladeshi garments to enter the EU market without tariff. The estimated revenue cost of tariff exposure after graduation ranges from USD 1 to 3 billion annually in lost export earnings, depending on negotiating outcomes with major trading partners.

The concessional finance channel is less discussed but potentially equally important fiscally. LDC status enables access to Official Development Assistance (ODA) at concessional terms and to specialized finance facilities available only to LDCs. Graduation progressively shifts Bangladesh's external financing mix toward market-rate borrowing, increasing the debt service burden for any given level of investment. The fiscal management of this transition requires reducing the overall investment financing requirement by improving domestic resource mobilization (the revenue reform agenda) and by prioritizing external borrowing from grant and highly concessional sources while they remain available.

The TRIPS pharmaceutical waiver channel is the most specific but potentially most severe for low-income households. LDC status grants Bangladesh's pharmaceutical industry the right to manufacture patented medicines without paying intellectual property fees. Bangladesh's pharmaceutical sector has become a significant exporter based partly on this flexibility. Graduation will require either negotiation of specific transition arrangements with major pharmaceutical patent holders or a shift in the pharmaceutical industry's business model. The fiscal dimension includes both the potential impact on domestic pharmaceutical prices and the associated impact on health budget adequacy, if publicly purchased medicines become more expensive.

A new concept, LDC Graduation Fiscal Transition Cost, quantifies the aggregate fiscal burden of managing LDC graduation across all three channels over the five-year post-graduation transition period, including the estimated revenue cost of trade preference loss, the increase in external financing costs from the shift toward market-rate borrowing, and the potential increase in public health budget requirements from pharmaceutical price changes.

37.7 Exam Questions: Chapter Thirty-Seven

Questions for BEcon Examination

Define the Developmental Fiscal State. Assess whether Bangladesh currently qualifies as a Developmental Fiscal State by your definition. What two institutional developments would be most important for Bangladesh to make this qualification genuine rather than merely nominal? (15 marks)

Describe Scenario One (the Reform Dividend) and Scenario Three (Fiscal Fragility and Crisis Recurrence) for Bangladesh's fiscal trajectory from 2026 to 2036. What are the three most important institutional differences that separate these scenarios? What is your assessment of Bangladesh's current trajectory? (20 marks)

Define the LDC Graduation Fiscal Transition Cost. For each of the three channels of fiscal impact, estimate the annual cost for Bangladesh in the five years following graduation in November 2026. What specific policy measures would reduce the aggregate transition cost? (20 marks)

Questions for BSS (Economics) Examination

Explain the philosophy of Fiscal Becoming and how it differs from both fiscal conservatism and fiscal radicalism. Using the Doctrine of Fiscal Trajectory Continuity, assess Bangladesh's fiscal governance record over the 2020 to 2026 period. (15 marks)

What is the Fiscal Intelligence Ecosystem? Assess the current quality of Bangladesh's fiscal intelligence ecosystem and propose a specific set of investments and institutional arrangements that would strengthen it over the next five years. (15 marks)

Present the seven measurable benchmarks for a fiscally transformed Bangladesh by 2036. For each benchmark, identify the single most important reform action required to achieve it within Bangladesh's fiscal constraints. (15 marks)

Questions for MSS (Economics) Examination

Drawing on all the concepts, principles, doctrines, and frameworks introduced across Part Five, construct an original fiscal governance theory of Bangladesh's development trajectory that integrates the political economy, institutional, and technical dimensions of the challenges analyzed in each chapter. Your theory should identify the fundamental binding constraints on Bangladesh's fiscal transformation, specify the conditions under which those constraints can be overcome, and make a conditional prediction about the most likely fiscal scenario for Bangladesh in 2036. (40 marks)

Write a comprehensive critical assessment of the entire intellectual project of this textbook as encountered in Parts One through Five. What are the most important original contributions to fiscal theory that the textbook makes? What are its most significant limitations or gaps? What questions in Bangladesh's public finance does the textbook leave unanswered that future research should address? (30 marks)

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CONCLUDING SYNTHESIS OF PART FIVE

Part Five has taken the analytical foundations of Parts One through Four and pressed them toward a set of frontier questions in Bangladesh's fiscal governance: how do institutions actually change, how does the monetary system interact with the fiscal system in ways that can amplify or dampen fiscal performance, what can digital technology genuinely do to transform fiscal governance and what are its limits, what does the world's most relevant international experience actually teach when filtered through the framework of Structural Contextual Comparativism, how should Bangladesh organize its fiscal response to different types of crisis, what determines the quality of education finance and why has Bangladesh's been structurally inadequate, how does climate change alter the entire architecture of fiscal planning, what drives tax compliance beyond deterrence and what is the fiscal sociology of Bangladesh's compliance problem, and what is the overarching philosophy that should guide Bangladesh's fiscal trajectory over the decade ahead.

Seven intellectual contributions of Part Five deserve explicit acknowledgment as this synthesis closes.

The first is the concept of Fiscal Institutional Metabolism, which provides a new way of understanding why reforms succeed or fail that goes beyond the usual attribution to political will or technical design quality. The metabolic rate of an institution, its capacity to process reform inputs into behavioral change, is itself a characteristic that needs to be diagnosed and addressed directly, not assumed.

The second is the Monetary-Fiscal Boundary Erosion framework, which makes visible a set of fiscal dynamics that operate through the central bank's balance sheet and therefore do not appear in conventional budget analysis. The Reserve Depreciation Fiscal Drag, the Implicit Fiscal Liability Crystallization of the NPL crisis, and the Exchange Rate Fiscal Sensitivity Coefficient are all concepts that enable more complete analysis of Bangladesh's actual fiscal position than conventional budget-focused analysis provides.

The third is the framework of Structural Contextual Comparativism, which provides a systematic method for evaluating which international comparisons are genuinely informative for Bangladesh's fiscal reform agenda. It leads to the conclusion that Vietnam and Kenya are more instructive comparators for specific reform agendas than the more commonly cited India and Nordic models.

The fourth is the Fiscal Crisis Anatomy framework and the Fiscal Crisis Severity Classification System, which together provide a structured approach to crisis assessment and pre-committed response that would significantly improve the speed and quality of Bangladesh's fiscal response to the crises it will certainly face in the years ahead.

The fifth is the Learning Returns Framework for education finance, which shifts the fiscal evaluation of education from input and enrollment metrics to measurable learning outcome improvements, with the implication that Education Budget Structural Compression, not merely inadequate total allocation, is the primary fiscal cause of Bangladesh's education quality failure.

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The sixth is the integrated climate finance framework, encompassing Climate Fiscal Moral Authority, the Capacity Payment Fiscal Trap, Green Budget Integrity, and the Principle of Climate Fiscal Incorporation, which together provide a comprehensive conceptual toolkit for managing the fiscal dimensions of Bangladesh's climate challenge.

The seventh is the philosophy of Fiscal Becoming and the Doctrine of Fiscal Trajectory Continuity, which together provide an overarching philosophical framework for evaluating fiscal progress that is simultaneously ambitious and realistic, demanding continuous improvement without requiring impossible perfection.

Part Six will turn to the empirical methods of budget analysis and the practical craft of fiscal advocacy: how researchers, civil society analysts, journalists, and students can construct rigorous, evidence-based assessments of Bangladesh's budget and contribute to the fiscal public sphere that democratic accountability requires.

APPENDIX TO PART FIVE: EXTENDED GLOSSARY OF NEW TERMS AND CONCEPTS

Fiscal Institutional Metabolism: The rate and efficiency with which a public financial management system converts reform inputs, including new laws, systems, organizational structures, training programs, and technical assistance, into sustained improvements in fiscal outcomes measured across revenue performance, expenditure efficiency, and accountability quality.

Doctrine of Aligned Incentive Reform: The principle that fiscal governance reforms are durable when they restructure the incentive landscape facing key institutional actors such that efficient, honest performance becomes privately rewarding rather than privately costly.

Bank Reserve Fiscal Interface: The set of mechanisms through which the central bank's balance sheet position, reserve adequacy, and lending behavior affect the fiscal capacity of the central government, and conversely through which fiscal decisions affect the central bank's monetary management.

Reserve Depreciation Fiscal Drag: The automatic increase in the government's domestic currency expenditure on external debt service that results from exchange rate depreciation, without any corresponding increase in the nominal value of the services purchased.

Monetary-Fiscal Boundary Erosion: The progressive blurring of the institutional and functional boundaries between central bank monetary management and government fiscal management, driven by the pressures of deficit financing, financial sector crisis management, and exchange rate management.

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Implicit Fiscal Liability Crystallization: The process by which contingent liabilities that exist off-balance-sheet for the government eventually become explicit claims on the budget when the triggering event occurs.

Principle of Contingent Fiscal Transparency: The principle that government budgets should include explicit disclosure of material contingent liabilities, their estimated probability of crystallization, and the fiscal response mechanisms that would be triggered if they do crystallize.

Reserve Requirement Fiscal Geometry: The framework describing how reserve requirements create three-dimensional fiscal effects simultaneously affecting revenue, spending, and financing capacity.

Exchange Rate Fiscal Sensitivity Coefficient: The percentage change in the total government budget expenditure requirement per one percentage point of domestic currency depreciation, accounting for all channels of exchange rate impact on fiscal obligations.

Sovereign Rating Fiscal Recursion: The self-reinforcing relationship between credit rating and fiscal outcomes in which a lower rating increases borrowing costs, worsens fiscal sustainability, and may justify further rating downgrades in a negative feedback loop.

Digital Fiscal Infrastructure: The integrated network of digital systems, data flows, institutional protocols, and human capabilities through which a state mobilizes revenue, manages expenditure, monitors implementation, enforces accountability, and communicates with citizens about public finances.

Fiscal Data Completeness Horizon: The point beyond which a fiscal data system's records cease to provide reliable information about the real-world outcomes of public spending, where the linkage between money spent and welfare achieved becomes opaque.

Digital Revenue Legibility: The increase in the fiscal authority's ability to observe, verify, and assess the tax liability of economic actors that results from the digitization of economic transactions.

Doctrine of Transactional Fiscal Visibility: The principle that governments should design their fiscal systems to maximize the passive legibility of economic activity, creating an environment in which the normal operation of the economy generates data that tax authorities can analyze for compliance purposes.

Mobile Fiscal Multiplier: The ratio of additional fiscal efficiency gains per unit of investment in mobile financial service integration for government payment systems, compared to the cost of the traditional payment infrastructure it replaces.

Principle of Algorithmic Fiscal Non-Discrimination: The requirement that AI-based fiscal decision systems be designed and monitored to ensure their outputs do not systematically disadvantage particular groups on the basis of characteristics unrelated to legitimate fiscal risk assessment.

Digitally Mediated Fiscal Exclusion: The condition in which the expansion of digital government services reduces access for populations without reliable digital connectivity, creating a two-tier fiscal citizenship.

Structural Contextual Comparativism: A framework for comparative fiscal analysis requiring that international comparisons be accompanied by explicit analysis of structural, contextual, and temporal comparability before conclusions are drawn.

Nordic Fiscal Compact Principle: The insight from Nordic fiscal experience that the social contract between citizens and the state is most stable and fiscally productive when citizens perceive that taxes paid are returned in high-quality public services that they and their families actually use.

Asymmetric Social Contract Failure: The condition in which the state extracts revenue from formal sector workers and businesses with reasonable efficiency but returns it in public services of such poor quality that many taxpayers opt out of public services while continuing to pay taxes.

Fiscal Crisis Anatomy: The systematic decomposition of an economic or social emergency into its fiscal dimensions, identifying the channels through which the crisis affects government revenue, expenditure requirements, and financing capacity.

Fiscal Crisis Severity Classification System (FCSCS): A classification system for fiscal crises along three dimensions of scope, magnitude, and reversibility, providing a structured framework for crisis assessment and response planning.

Principle of Pre-Committed Crisis Fiscal Response: The principle that governments should design and publicly commit to fiscal response protocols for foreseeable crisis scenarios before those crises occur.

Geopolitical Fiscal Pass-Through Coefficient: The ratio of domestic fiscal impact per unit of geopolitical commodity price shock, reflecting the degree to which a country's fiscal structure amplifies or dampens the domestic fiscal consequences of international commodity market disruptions.

Climate Fiscal Baseline Shift: The process by which the long-run structural fiscal requirements of a climate-vulnerable country increase as climate change progresses, raising the baseline level of spending needed for adaptation and resilience without any acute crisis event having occurred.

Principle of Climate Fiscal Incorporation: The principle that climate adaptation and resilience costs should be incorporated into the structural baseline of the national budget as non-discretionary expenditure rather than discretionary development spending.

Fiscal Diplomatic Capital: The accumulated credibility, relationships, and track record that a government deploys in negotiations with international financial institutions, bilateral donors, and international capital markets to secure favorable financing terms.

Learning Returns Framework: A framework for education finance analysis that evaluates education expenditure by its marginal improvement in measurable learning outcomes per additional unit of spending, under different allocation strategies, disaggregated by income distribution.

Education Budget Structural Compression: The condition in which the education budget is so dominated by recurrent salary expenditure that discretionary resources available for quality improvement fall below the minimum threshold required to produce measurable learning outcome gains.

Principle of Teacher Fiscal Adequacy: The principle that education budget quality should be assessed partly by the adequacy of investment in teacher capability relative to teacher compensation.

Fiscal Return to Education Quality: The ratio of additional government revenue generated over a defined horizon following an educational investment to the initial cost of that investment, disaggregated by education level and quality dimension.

Education Trade Balance: The net foreign exchange flow from student mobility, measuring international student tuition receipts minus domestic student tuition payments abroad.

Tertiary Education Fiscal Capture: The process by which public university resources are captured by internal interest groups at the expense of institutional quality improvement and genuine academic mission.

Climate Fiscal Moral Authority: The political resource that accrues to countries that suffer severe climate impacts disproportionate to their contribution to cumulative greenhouse gas emissions.

Sovereign Green Bond Fiscal Credibility: The composite institutional quality indicator that international green bond investors assess in determining whether a sovereign issuer's environmental commitments are sufficiently credible, measurable, and independently verifiable.

Capacity Payment Fiscal Trap: The condition in which contractual obligations to pay for installed power generation capacity create a fiscal liability that grows with generation expansion, regardless of whether that capacity is efficiently utilized.

Loss and Damage Fiscal Quantification: The methodology for calculating the financial cost of climate-related losses and damages that cannot be addressed through adaptation measures alone.

Principle of Climate Fiscal Reparation: The principle that the costs of climate change already being borne by Bangladesh's public finances represent a moral and legal claim on the international community that should be systematically quantified and formally presented in both domestic and international forums.

Green Budget Integrity: The quality of a government's climate budget tagging system as measured by comprehensiveness, accuracy, transparency, and usefulness.

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Infrastructure Fiscal Depreciation Rate: The rate at which the economic value of public infrastructure declines in the absence of adequate maintenance expenditure.

Deferred Maintenance Fiscal Multiplier: The ratio of reconstruction cost to the annual maintenance expenditure that would have prevented infrastructure failure, measuring the fiscal inefficiency of deferred maintenance.

Climate Finance Administrative Drag: The ratio of administrative and compliance costs to total climate finance received, measuring the efficiency loss from overhead required to access and manage international climate finance.

Fiscal Social Capital: The aggregate of trust relationships, civic norms, and reciprocity expectations between citizens and the state that determine the extent to which voluntary tax compliance exceeds what pure deterrence calculus would predict.

Doctrine of Fiscal Citizenship: The principle that sustainable tax systems in democratic societies depend on the cultivation of fiscal citizenship as a civic identity component that includes payment of taxes as a constitutive element of full membership in the national community.

Taxpayer Experience Fiscal Elasticity: The responsiveness of voluntary compliance behavior to changes in the quality of the taxpayer experience, holding deterrence parameters constant.

Principle of Fiscal Burden Transparency: The principle that governments should design their tax systems to ensure that citizens have sufficient information to understand the aggregate tax burden they bear.

Fiscal Informality Gradient: The spectrum of economic actors from fully formal through semi-formal to fully informal, measuring the distribution of economic activity and identifying the marginal cost of compliance for actors at different points in the gradient.

Developmental Fiscal State: A government that uses its full fiscal toolkit not merely to maintain macroeconomic stability and fund public services but to actively shape the conditions for broad-based, environmentally sustainable, and institutionally robust economic transformation.

Fiscal Becoming: The philosophy that a state's fiscal system is a dynamic process of continuous institutional evolution, shaped by learning, changing social claims, and accumulated experience, rather than a fixed architecture to be designed and maintained.

Doctrine of Fiscal Trajectory Continuity: The principle that the most important fiscal governance success metric is whether the trajectory of improvement across multiple institutional dimensions is positive, continuous, and accelerating, rather than whether specific numerical targets in any given year have been achieved.

LDC Graduation Fiscal Transition Cost: The aggregate fiscal burden of managing LDC graduation across trade preference loss, external financing cost increase, and pharmaceutical price change channels over the five-year post-graduation transition period.

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Fiscal Intelligence Ecosystem: The integrated network of government analytical units, independent research institutions, university departments, think tanks, and international knowledge partnerships that collectively generates the evidence base for fiscal decision-making.

PART SIX: POST-TRANSITION ECONOMICS, ADVANCED FISCAL THEORY, GLOBAL INTEGRATION, AND THE NEW ARCHITECTURE OF BANGLADESH'S SOVEREIGN FISCAL FUTURE

Preface to Part Six

Parts One through Five of this textbook have moved from foundational philosophy and constitutional architecture through methodology and modeling, sectoral fiscal analysis, the political economy of accountability, and the governance reform agenda that a transformed Bangladesh demands. Each part has built upon the last, and by the time the reader arrives here, they carry a rich, multi-layered understanding of the Bangladeshi fiscal state: its history, its structural contradictions, its institutional peculiarities, and its extraordinary capacity to surprise.

Part Six enters territory that previous parts have approached but not fully inhabited. It is concerned with the economy and the budget system at their most dynamic moment: the post-LDC transition that Bangladesh is navigating as of 2026, the advanced theoretical frontiers that are reshaping how the world thinks about fiscal policy, the geopolitical re-ordering of international finance that is reconfiguring the rules under which Bangladesh must operate, and the concrete architecture of the FY2026-27 budget that will be the first full budget composed under the structural conditions of the new era.

Several philosophical commitments animate this part that deserve explicit statement.

First, this part refuses the comfort of false certainty. Bangladesh's fiscal future is genuinely uncertain in ways that no textbook can dissolve. The LDC graduation, the Iran War and its reverberations through global energy and commodity markets, the restructuring of the global trading system under American protectionism and Chinese counter-maneuvers, the possibility of climate disruption on a scale that overwhelms conventional fiscal frameworks: these are not background noise but foreground realities. A textbook that pretends otherwise does the student a disservice.

Second, this part insists on the primacy of institutional quality over fiscal arithmetic. The most important question about Bangladesh's fiscal future is not whether the deficit will be 3.5 or 4.2 percent of GDP; it is whether the institutions that manage public money have the integrity, capacity, and accountability required to convert whatever resources the budget mobilizes into genuine improvements in the lives of ordinary Bangladeshis. Numbers without institutions are noise.

Third, this part introduces a set of new concepts, principles, doctrines, and philosophies that extend the intellectual framework built in previous parts. Every term introduced here emerges

from the latest research in fiscal economics, behavioral public finance, institutional theory, and political economy, and every concept is grounded in the specific realities of Bangladesh's condition in 2026.

The ten chapters that follow constitute the most intellectually ambitious portion of this textbook. They are also, by design, the most practically oriented. Students who complete this part will be equipped not only to analyze Bangladesh's fiscal system but to contribute to its transformation.

CHAPTER THIRTY-EIGHT: POST-LDC FISCAL ARCHITECTURE: TRADE TRANSITION, REVENUE RECONFIGURATION, AND THE ECONOMICS OF SOVEREIGNTY UNDER NEW RULES

38.1 A New Definition: The Post-Preference Fiscal Shock

A Post-Preference Fiscal Shock is the compound effect, distributed unevenly across fiscal years, of the simultaneous withdrawal of multiple trade and financing privileges that a graduating economy has internalized as structural inputs into its revenue, foreign exchange, and social expenditure frameworks, generating a sovereign adjustment burden whose total fiscal cost exceeds the sum of its individual component losses because of the interactive and multiplying effects of concurrent exposure across several institutional domains.

This definition departs from the narrower concept of preference erosion, which focuses only on the tariff dimension of LDC graduation, and from debt sustainability frameworks, which address the financing dimension in isolation. The Post-Preference Fiscal Shock, as defined here, is a systemic category: it names the totality of what happens to a graduating economy's public finances when multiple structural supports are withdrawn simultaneously, even if each individual withdrawal is technically managed.

Bangladesh in 2026 is experiencing precisely this. The November 2026 graduation date, even with the government's application in February 2026 for a three-year deferral, has already begun transmitting its effects through the economy. Business confidence, investment timing, procurement strategies by international buyers, and the terms offered by multilateral and bilateral lenders have all begun to adjust to the post-LDC reality, regardless of the formal graduation date. The fiscal shock does not wait for the ceremonial transition.

Understanding the Post-Preference Fiscal Shock requires understanding its five component channels: the trade preference channel, the concessional financing channel, the TRIPS and intellectual property channel, the export subsidy discipline channel, and the climate finance channel.

The trade preference channel is the most studied. Bangladesh's access to the EU's Everything But Arms scheme, which allows garment and other exports to enter the EU market duty-free, is worth approximately USD 2 to 3 billion in tariff savings annually on garments alone. After the applicable grace period, typically three years post-graduation, EU MFN tariffs of 9 to 12 percent

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will apply to Bangladeshi garments, compared to zero percent now. Given that Bangladesh's garments compete primarily on price, and given that competitors including India and Vietnam will continue to pay lower rates under their respective trade arrangements with the EU, this is a material competitiveness shock. The CPD's simulations suggest an annual export earnings reduction of between 6 and 14 percent once EU preferences lapse fully, representing a potential loss of USD 3 to 7 billion per year from the foreign exchange account, with cascading effects on the revenue budget through customs receipts and the income generated in the export sector.

The concessional financing channel is less discussed in the popular press but equally consequential for the budget. As a graduating LDC, Bangladesh will gradually lose access to the most concessional tiers of multilateral lending: the IDA credit terms of the World Bank (currently interest rates around 0.75 to 1.25 percent with 25 to 40 year maturities and 5 to 10 year grace periods) and the Asian Development Fund terms of the ADB. It will transition to IBRD and ADB ordinary capital terms, with interest rates of around 5 to 6 percent and shorter maturities. Bilateral lenders, including Japan, have already begun adjusting their terms. Japan, which previously offered ODA loans at approximately 1 percent interest, raised its rate to 2 percent even before graduation, a move that incrementally increases Bangladesh's interest payment burden. The cumulative financing cost increase over the coming decade, as existing concessional loans are repaid and replaced by higher-cost instruments, is estimated to add between USD 1 and 2 billion annually to the debt service bill by the early 2030s.

The TRIPS and intellectual property channel affects primarily the health budget. As an LDC, Bangladesh's pharmaceutical industry has operated under a waiver from the WTO TRIPS Agreement that allows it to produce generic versions of patented medicines without license fees. This waiver has enabled Bangladesh to maintain a domestic pharmaceutical sector that provides relatively affordable essential medicines to the health system, contributing to the cost-effectiveness of the public health budget. Upon graduation, TRIPS obligations apply. The domestic pharmaceutical industry will face either the need to negotiate expensive licensing agreements, shift entirely to non-patented medicines, or pay the royalty costs for the patented medicines that represent an increasing share of the essential medicines list. Independent estimates suggest that medicine costs for the public health budget could increase by 15 to 25 percent as the TRIPS waiver lapses, adding several thousand crore taka to the health expenditure requirement at a time when the health budget is already chronically underfunded.

The export subsidy discipline channel reflects WTO rules that prohibit export-contingent subsidies for non-LDC developing countries above a certain income threshold. Bangladesh currently provides cash incentive subsidies of 2 to 20 percent of export value on various product categories, including garments, leather goods, agricultural products, and pharmaceuticals. These subsidies, budgeted at approximately Tk 4,000 to 6,000 crore annually, will become legally vulnerable to WTO challenge once Bangladesh loses the LDC exemption from subsidy disciplines. The transition requires the government to redesign its export support architecture from price-based subsidies (which WTO prohibits) to permissible forms of support including infrastructure investment, productivity enhancement, research and development, and labor training, all of which are less immediately effective but compatible with the post-LDC trade rules.

The climate finance channel represents the least-appreciated dimension of the graduation penalty. LDC status confers preferential access to climate finance instruments including the Green Climate Fund (GCF), the Adaptation Fund, and various bilateral green finance windows that offer grant or highly concessional terms. As a graduating economy, Bangladesh will lose access to these preferential tiers and will need to compete for climate finance on standard developing country terms, at a time when its climate vulnerability is intensifying and its adaptation investment requirements are growing.

A new principle follows from this analysis: the Principle of Graduation Fiscal Neutrality, which holds that the fiscal system of a graduating economy must be reformed to generate sufficient domestic revenue growth, financing diversification, and expenditure efficiency gains to offset the full value of the lost LDC fiscal privileges within the transition period, without recourse to austerity measures that reduce the welfare of the poorest segments of the population. Graduation Fiscal Neutrality is a demanding standard: it requires simultaneous improvement on the revenue side, the financing side, and the expenditure quality side, coordinated across a five to seven year horizon.

Bangladesh in 2026 has not yet achieved, and is far from achieving, Graduation Fiscal Neutrality. Its tax-to-GDP ratio fell to 6.6 percent in FY2025, its banking sector is burdened with NPLs exceeding 30.6 percent of total loans, its revenue deficit is at record levels with a shortfall of nearly Tk 100,000 crore in the first nine months of FY2025-26, and its financing mix is shifting toward costlier instruments. The gap between the fiscal neutrality standard and Bangladesh's current fiscal performance is the central challenge that the next three to seven budgets must address.

38.2 Export Diversification and the Budget's Role: A New Analytical Framework

The standard recommendation for a graduating LDC confronting preference erosion is export diversification: reduce dependence on a single sector (garments), develop new export industries (pharmaceuticals, ICT, light engineering, agro-processing, processed leather), and expand market geography beyond the EU and North America.

This recommendation is correct in principle but requires fiscal operationalization: what specifically should the budget do to catalyze export diversification, given its current resource constraints?

A new analytical framework introduced here is the Fiscal Export Ladder, which holds that the budget's role in export diversification should be calibrated to the specific institutional failures and market gaps that prevent private firms from ascending each rung of the value-addition ladder. Different rungs of the ladder face different constraints, and the budget intervention must be precisely matched.

The first rung is basic export readiness: helping firms, particularly small and medium enterprises, meet the quality, standards compliance, certification, and logistics requirements of international markets. The budget's role here is primarily in public infrastructure (port efficiency, cold chain logistics, testing laboratories, certification agencies) and information provision (export market

intelligence services, trade facilitation). These are classic public good investments that private markets will not adequately provide. Bangladesh has invested insufficiently in this rung; port logistics costs at approximately 16 percent of GDP are well above the global benchmark of 10 percent, and testing infrastructure for non-garment products is inadequate.

The second rung is sector-specific technical capability: the research, engineering, design, and quality management capabilities that allow firms to move up the value chain within their sector. For garments, this means moving from basic cut-make-trim operations to full-package and design-integrated production. For pharmaceuticals, it means developing the bio-equivalence testing and regulatory submission capabilities needed to penetrate regulated markets. For ICT, it means developing higher-end software development and data analytics capabilities beyond basic outsourcing. The budget's role here is in technical and vocational education calibrated to industry needs, public-private research partnerships, and targeted support for quality certification processes.

The third rung is market penetration: the active negotiation and development of trade relationships, Free Trade Agreements, Preferential Trade Agreements, and bilateral Economic Partnership Agreements that replace lost LDC preferences with contractually negotiated preferential access. The budget's role is in diplomatic and trade negotiation capacity, trade promotion agencies, and the financial resources to sustain trade missions and negotiation processes. Bangladesh has historically underinvested in trade negotiation capacity relative to the complexity and importance of its trade policy challenges.

The fourth rung is technology adoption: incorporating digital technology, automation, green manufacturing processes, and data-driven supply chain management into Bangladeshi industry at a pace that maintains competitiveness as labor cost advantages narrow with income growth. The budget's role here is in digital infrastructure (5G networks, broadband access, data centers), technology adoption incentives (tax credits for R&D, digital equipment investment), and the cybersecurity and data governance frameworks that make digital business safe.

The Fiscal Export Ladder framework implies a specific reorientation of budget priorities: away from direct price subsidies (which WTO rules will increasingly prohibit) and toward the productivity-enhancing public goods that underpin competitiveness across all rungs. This is a structural shift in how the budget conceives of its economic development function, and it requires sustained commitment across multiple budget cycles.

38.3 Revenue Reconfiguration for the Post-LDC Era: The New Fiscal Metabolism Imperative

The most fundamental fiscal challenge of the post-LDC transition is revenue reconfiguration: building a domestic tax system capable of replacing, over time, the revenue and welfare value of the international support measures that graduation removes.

This is not a small task. Bangladesh's tax-to-GDP ratio of 6.6 to 7.4 percent (the precise figure varies by measurement convention and is subject to revision as GDP estimates are recalibrated) is among the lowest in the world for a lower-middle income country. The IMF's Article IV

Consultation recommendations for Bangladesh consistently identify revenue mobilization as the single most important fiscal structural priority. The FY2025-26 budget set a revenue collection target of Tk 564,000 crore, of which Tk 499,000 crore was to come from NBR. However, by the first nine months of the year, NBR faced a shortfall of nearly Tk 100,000 crore, the largest on record, suggesting that the structural revenue gap is not merely a target-setting problem but a deep systemic one.

What would it mean to achieve a tax-to-GDP ratio of, say, 12 to 15 percent within the next decade? This would require adding 5 to 8 percentage points of GDP in additional annual tax revenue. At Bangladesh's current nominal GDP of approximately Tk 6,370,707 crore (the estimated GDP base for FY2025-26), 5 percentage points represents approximately Tk 318,000 crore in additional annual revenue at current GDP levels. This is roughly the current annual ADP budget. The scale of the challenge is not impossible but it is enormous, and it requires a multi-pronged strategy that operates simultaneously on tax base expansion, tax rate rationalization, compliance improvement, and administrative modernization.

A new doctrine relevant here is the Doctrine of Accumulated Fiscal Potential, which holds that an economy's actual tax revenue at any given time represents only a fraction of its latent taxable capacity, and that the difference between actual and potential tax revenue constitutes a stock of accumulated fiscal potential that, if properly unlocked through institutional reform, could transform the country's public investment capacity without requiring politically contentious increases in nominal tax rates.

Estimating Bangladesh's accumulated fiscal potential requires examining several specific categories. The informal sector gap represents the largest single category: Bangladesh's informal economy, estimated by various researchers at 30 to 50 percent of GDP, generates economic activity that is entirely outside the formal tax system. This is not merely a compliance problem; it is a structural feature of an economy where the formal regulatory and commercial framework has not extended to encompass the full range of economic activity. Bringing even a fraction of this informal economy into the tax system through simplified registration, lower compliance costs, and integration with mobile financial services could generate substantial revenue at relatively low administrative cost.

The under-taxation of property and wealth represents the second major category. Bangladesh has some of the lowest property tax rates in the world relative to property values, and its wealth taxation framework is essentially nonexistent. Urban land values in Dhaka and other major cities have appreciated enormously over the past two decades, generating concentrated wealth that is largely untaxed. A comprehensive property valuation and property tax system, combined with capital gains taxation on property transactions, could generate revenue while also discouraging speculative land holding that contributes to urban land unaffordability.

The corporate tax compliance gap represents the third major category. The gap between the statutory corporate tax rate and the effective rate paid by corporations, after accounting for tax holidays, exemptions, deductions, and avoidance strategies, is large. The NBR's own analysis suggests that effective corporate tax rates are well below statutory rates across most sectors.

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Rationalization of tax expenditures, combined with stronger transfer pricing enforcement and improved anti-avoidance measures, could recover a substantial portion of this gap.

The digital economy taxation gap represents a rapidly growing category. Bangladesh's digital economy, including e-commerce, digital services, ride-hailing, food delivery, and various platform-based businesses, has grown rapidly but is only partially captured by the existing tax system. International digital companies operating in Bangladesh without physical presence currently face limited tax obligations. Bangladesh's participation in the OECD's Pillar One and Pillar Two global minimum tax frameworks, while currently partial, offers a pathway to capturing a portion of the global corporate tax that large digital firms earn from their Bangladeshi operations.

The accumulated fiscal potential across these categories, while difficult to estimate precisely, is likely in the range of Tk 150,000 to 300,000 crore annually at current economic scale: a figure that, if mobilized over a decade through sustained reform, would transform Bangladesh's fiscal capacity entirely. The Doctrine of Accumulated Fiscal Potential implies that the primary constraint on Bangladesh's fiscal transformation is not the absence of taxable economic activity but the institutional capacity to tax it fairly and effectively.

38.4 The LDC Deferral Decision and Its Fiscal Implications

Bangladesh's government formally applied for a three-year deferral of its LDC graduation in February 2026, reflecting the assessment that the cumulative shocks of COVID-19, the Russia-Ukraine commodity price crisis, the July 2024 political transition, and the ongoing global trade fragmentation had left the economy insufficiently prepared for the loss of LDC privileges. As of the time of writing, the UN Committee for Development Policy's decision on this request had not yet been formally announced, creating significant uncertainty in the planning assumptions for the FY2026-27 budget.

The fiscal implications of deferral, if granted, and of graduation on schedule, if deferral is denied, differ substantially and deserve careful analysis.

If deferral is granted for three years to November 2029, Bangladesh's budget retains access to IDA and ADF concessional financing terms for the deferral period, preserving the lower interest rate environment for new borrowing contracted during that time. EU EBA market access for garments continues until 2029 plus the applicable grace period, reducing the immediate pressure on the export sector. TRIPS waiver for pharmaceuticals continues, maintaining health budget affordability. Export cash incentives retain WTO protection from challenge under LDC exemptions. This deferral creates fiscal breathing space of perhaps Tk 30,000 to 50,000 crore annually in lower financing costs and avoided transition expenditure, which, if managed strategically, could fund the domestic structural reforms that make eventual graduation sustainable.

If graduation proceeds on schedule in November 2026, the fiscal adjustment required is immediate and substantial. The budget for FY2026-27 and FY2027-28 would need to incorporate the initial phase of preference erosion, begin the redesign of export support

instruments, initiate negotiations with international lenders for bridge financing during the transition, and expand domestic revenue collection at an accelerated pace. This compressed timeline creates fiscal stress risks that could, in adverse scenarios, require return to the IMF for additional support, as simulated by the WB/IMF's stress test scenarios for Bangladesh's debt sustainability in the moderate-risk assessment published in August 2025.

A new concept that captures this decision context is the Fiscal Option Value of Deferral: the economic value of the additional strategic flexibility and adjustment time that a deferral grant provides to the graduating economy, measured as the present discounted value of the reduction in fiscal adjustment costs that orderly, phased transition enables compared to forced, compressed transition. Bangladesh's Fiscal Option Value of Deferral is high, given the depth of its current macroeconomic stress and the ambitious reform agenda that genuine post-LDC competitiveness requires.

The deferral discussion also raises a philosophical point about the nature of international development categorizations that deserves attention. The LDC framework was designed to identify countries requiring special support, based on composite indexes of income, human assets, and economic vulnerability. Bangladesh meets the threshold criteria for graduation, meaning it has passed the quantitative tests. But threshold-crossing does not equal resilience: a country that has exactly crossed the income threshold in the wake of a decade of modest growth may be far less structurally robust than a country that crossed the same threshold two decades earlier under conditions of sustained productivity gain. The Doctrine of Threshold Inadequacy holds that binary graduation criteria, however carefully designed, cannot fully capture the quality of the structural transformation that separates sustainable from fragile development trajectories, and that graduation decisions should be accompanied by a qualitative resilience assessment that goes beyond threshold metrics.

38.5 Exam Questions: Chapter Thirty-Eight

Questions for BEcon Examination

Define the Post-Preference Fiscal Shock and identify its five component channels as described in this chapter. For each channel, provide a specific quantitative estimate of its potential fiscal impact on Bangladesh's budget over the next five years, citing the most recent available data. (25 marks)

Explain the Fiscal Export Ladder framework. Select two rungs of the ladder and for each one, identify a specific budget intervention from the FY2025-26 budget that operates at that rung and evaluate its adequacy. (20 marks)

What is the Principle of Graduation Fiscal Neutrality? Is Bangladesh currently on track to achieve it? Justify your answer with specific fiscal data. (15 marks)

Questions for BSS (Economics) Examination

Compare the fiscal implications of LDC graduation on schedule in November 2026 with the implications of a three-year deferral. Which outcome is more fiscally manageable for Bangladesh in the short term, and which in the long term? (15 marks)

Explain the Doctrine of Accumulated Fiscal Potential. Estimate the total accumulated fiscal potential in Bangladesh across three specific categories you identify, with supporting reasoning. (15 marks)

What is the Fiscal Option Value of Deferral? Why is it high for Bangladesh in 2026 specifically? (10 marks)

Questions for MSS (Economics) Examination

Critically evaluate the Doctrine of Threshold Inadequacy as a critique of the UN LDC graduation framework. Is the framework fundamentally flawed, or does it serve its purposes adequately? What reforms to the graduation assessment methodology would you recommend? Support your argument with reference to Bangladesh's graduation circumstances and academic literature on development categorization. (30 marks)

Apply a multi-channel fiscal impact model to estimate the total annual fiscal cost to Bangladesh of LDC graduation from 2027 to 2035, distinguishing between the trade preference channel, the financing cost channel, the TRIPS channel, and the export subsidy discipline channel. Present your estimate with explicit assumptions and sensitivity analysis. (30 marks)

CHAPTER THIRTY-NINE: ADVANCED PUBLIC FINANCE THEORY: NEW FRONTIERS IN FISCAL SCIENCE, COMPLEXITY ECONOMICS, AND POST-KEYNESIAN THOUGHT

39.1 Beyond Standard Fiscal Theory: The Case for Complexity Economics in Budget Analysis

Standard public finance theory, as presented in most textbooks, operates within a broadly neoclassical or new-Keynesian analytical framework. It assumes that economic actors are rational optimizers, that markets tend toward equilibrium, that fiscal policy has predictable multiplier effects, and that institutional quality is exogenous to the economic models used to design fiscal policy. These assumptions produce tractable, elegant models that are extremely useful as first approximations but increasingly inadequate as guides to the behavior of real fiscal systems under contemporary conditions.

Complexity economics, associated with the work of W. Brian Arthur, Eric Beinhocker, and the Santa Fe Institute tradition, offers a fundamentally different framework. It holds that economies are complex adaptive systems: networks of interacting agents whose individual behaviors and mutual interactions generate emergent system-level properties that are not predictable from the properties of the individual agents alone. In complex systems, small perturbations can trigger

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large cascades (non-linearity), history matters profoundly (path dependence), and equilibrium is not a resting state but an ephemeral moment in an ongoing evolutionary process (perpetual novelty).

A new concept that draws on this framework is Fiscal System Complexity, defined as the degree to which a country's fiscal system exhibits properties of non-linearity, path dependence, emergent behavior, and adaptive response that make its aggregate behavior fundamentally unpredictable from any model that assumes linearity and equilibrium as baseline conditions.

Bangladesh's fiscal system exhibits high Fiscal System Complexity, which helps explain why standard budget models consistently fail to anticipate the actual fiscal outcomes that emerge during the year. Consider the following examples of complex system behavior in Bangladesh's budget.

First, non-linearity in revenue response: the relationship between GDP growth and NBR revenue growth in Bangladesh is non-linear and periodically discontinuous. In some years, a 1 percent increase in GDP growth generates a large proportional increase in tax revenue (high buoyancy); in others, the same growth increment barely moves revenue. This reflects the fact that economic growth in Bangladesh is sectorally heterogeneous, and the taxability of growth varies enormously across sectors, informal-formal sector composition, and the institutional capacity of revenue administration at any particular time.

Second, path dependence in expenditure composition: the composition of Bangladesh's budget in any given year is heavily determined by the stock of commitments made in previous years, a phenomenon named Fiscal Sedimentation in Chapter Two of Part One. The path dependence is particularly acute in the ADP: once a project is included, the political and institutional cost of its removal is high, and the project tends to persist in successive ADPs even when implementation has stalled or economic returns have deteriorated. This creates a budget composition that evolves slowly and stickily rather than optimally in response to changing priorities.

Third, emergent fiscal behavior from individual agency interactions: Bangladesh's actual fiscal outcomes, including the revenue collection shortfall, the pace of ADP implementation, and the leakage in social protection transfers, emerge from the interactions of thousands of individual tax inspectors, ministry officials, project managers, beneficiary selection agents, and political intermediaries, each responding to their own incentive environments. The system-level outcome cannot be predicted from any model of aggregate fiscal behavior; it emerges from the complex of individual interactions. This is why top-down fiscal reform programs so frequently disappoint: they change the formal rules without changing the incentive environments that drive individual behavior.

The policy implication of high Fiscal System Complexity is a principle this textbook names the Principle of Adaptive Fiscal Governance: the recognition that fiscal management in a complex system requires not the design and enforcement of optimal rules but the continuous monitoring of emergent outcomes, rapid adjustment of instruments when emergent behavior diverges from desired paths, maintenance of system resilience to absorb shocks without catastrophic phase

transitions, and cultivation of local institutional knowledge and adaptive capacity rather than standardized top-down blueprints.

This principle contrasts strikingly with the dominant approach of international financial institutions, which tends to prescribe standardized institutional packages (medium-term expenditure frameworks, independent fiscal councils, structural fiscal rules) derived from best-practice examples in developed or successfully reforming countries. These prescriptions are not wrong but they are insufficient as a theory of fiscal governance in complex systems.

39.2 Post-Keynesian Fiscal Theory and Its Relevance for Bangladesh

Post-Keynesian economics, associated with the work of Michal Kalecki, Hyman Minsky, Marc Lavoie, Wynne Godley, and their intellectual descendants, offers a theoretical framework that differs from both orthodox Keynesianism and neoclassical economics in its treatment of money, investment, and the role of effective demand in determining output.

The key post-Keynesian insights for fiscal policy are as follows.

First, investment drives saving, not the reverse. In the post-Keynesian framework, it is private and public investment that generates income, which in turn generates saving. The implication is that public investment does not crowd out private saving by competing for a fixed pool of resources; rather, it can generate the income growth that expands the savings pool and creates the conditions for complementary private investment. This matters for Bangladesh because the standard crowding-out critique of public borrowing may be overstated in an economy where investment demand is constrained by animal spirits and infrastructure deficiencies rather than by savings scarcity.

Second, financial fragility is endogenous to capitalist development. Minsky's Financial Instability Hypothesis holds that stability breeds instability: during good times, financial actors take on progressively more speculative positions, the financial system becomes fragile, and eventually a trigger event produces a financial crisis. Applied to Bangladesh, this framework explains the banking sector's NPL crisis not as an exogenous policy failure but as an endogenous product of a decade of rapid credit expansion during the high-growth era, combined with inadequate regulatory oversight.

Third, fiscal deficits are the counterpart of private sector surpluses and external surpluses in a sectoral balances identity. The Godley sectoral balances framework, which holds that the government financial balance, the private sector financial balance, and the current account financial balance must sum to zero, has important implications for Bangladesh's fiscal choices. When the private sector is deleveraging (as it appears to be in 2024-2026, with low private investment and bank NPL resolution depressing credit growth), a government fiscal surplus or aggressive fiscal consolidation implies either a deterioration in the current account or a compression of private sector saving, neither of which may be desirable. This provides a post-Keynesian critique of the IMF-supported fiscal consolidation program that constrained the FY2025-26 budget.

A new doctrine that synthesizes these post-Keynesian insights for Bangladesh's specific context is the Doctrine of Functional Fiscal Balance, which holds that the appropriate fiscal deficit for Bangladesh at any given time is not defined by any numerical rule or ratio to GDP but by the functional requirements of maintaining adequate aggregate demand to support employment and growth, investing in the productive infrastructure and human capital that sustains long-run productivity growth, maintaining external balance at a level consistent with foreign debt sustainability, and distributing fiscal benefits and burdens in a manner consistent with the social contract of the state. A Functionally Balanced Budget is one that meets these functional requirements, even if its arithmetic result is a deficit, a surplus, or a balanced budget in conventional accounting terms.

This doctrine does not endorse unlimited deficit spending; it insists that the constraints on fiscal expansion are real (the inflation constraint, the external balance constraint, the debt sustainability constraint) but that they are functional and contextual rather than numerical and universal.

39.3 The New Institutional Economics of Fiscal Systems

The New Institutional Economics (NIE), associated with Douglass North, Oliver Williamson, and Elinor Ostrom, holds that economic outcomes are shaped fundamentally by the institutional environment: the formal rules (laws, constitutions, regulations), informal constraints (norms, conventions, self-imposed codes of behavior), and enforcement mechanisms that structure human interaction. For fiscal systems, the NIE implies that the quality of budget outcomes depends not primarily on the technical design of fiscal frameworks but on the institutional matrix within which those frameworks operate.

North's distinction between formal rules and informal constraints is particularly important for understanding why formal fiscal reforms in Bangladesh so frequently produce disappointing results. The MTBF, as analyzed extensively in Part One of this textbook, provides a clear example: the formal rules of the MTBF (three-year rolling frameworks, strategic objective mapping, performance indicators) were adopted in full, but the informal constraints of the budget process (historical allocation norms, political patronage patterns, bureaucratic status hierarchies, the norm that budget increases are rewards for political loyalty) were not changed, and so the formal reforms were absorbed into the existing institutional matrix without transforming it.

Elinor Ostrom's work on commons governance offers a complementary insight. Ostrom demonstrated, against the Hardin-inspired conventional wisdom, that communities frequently develop sophisticated institutional arrangements to manage common pool resources sustainably, without either privatization or central state regulation. The fiscal commons of Bangladesh, the national revenue base and the public expenditure pool, are analogous to a common pool resource in an important sense: they are rivalrous (resources spent on one use are not available for another) and their long-term sustainability depends on restraint by all claimants. The chronic overloading of the ADP with politically motivated projects, the aggressive revenue underperformance that results partly from elite non-compliance with tax obligations, and the leakage of social protection funds through politicized beneficiary selection all represent failures of fiscal commons governance.

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Ostrom's design principles for successful commons governance translate into specific institutional prescriptions for fiscal management: clearly defined boundaries for the fiscal commons (who has claims on public resources, on what basis, and through what processes), rules that match local conditions rather than being imposed from outside, collective choice arrangements that allow those affected by fiscal decisions to participate in modifying them, monitoring mechanisms with accountable monitors, graduated sanctions for rule violators, conflict resolution mechanisms, and recognition of rights to organize by higher-level authorities.

A new philosophy arising from the NIE perspective is what this textbook terms the Philosophy of Institutional Fiscal Realism: the recognition that fiscal policy analysis must begin with an honest assessment of the institutional matrix that shapes actual fiscal behavior, rather than with the assumption that rational, benevolent agents will implement whatever rules the theorist designs. Institutional Fiscal Realism does not justify institutional fatalism (the view that nothing can change because institutions are sticky); rather, it insists that institutional change is the primary lever for fiscal improvement, and that technical instruments alone, without institutional transformation, will not deliver durable fiscal improvement.

39.4 Behavioral Public Finance: Nudges, Frames, and the Architecture of Fiscal Choice

The behavioral economics revolution, initiated by Daniel Kahneman and Amos Tversky's work on cognitive biases and developed into policy by Richard Thaler and Cass Sunstein's nudge theory, has produced a growing literature on behavioral public finance that extends the analysis of fiscal policy beyond the rational actor assumption.

Behavioral public finance identifies several categories of cognitive bias that systematically affect both the behavior of fiscal decision-makers and the behavior of citizens interacting with the tax and spending system.

Loss aversion, the well-documented finding that losses loom larger psychologically than equivalent gains, explains several puzzling features of budget politics. Politicians resist cutting programs even when the evidence clearly favors reallocation, because program cuts are framed as losses that trigger disproportionate political costs, while reallocation gains are valued less. This asymmetry biases fiscal systems toward cumulative expansion of spending commitments and against rational reallocation. In Bangladesh, the persistence of low-value ADP projects year after year, and the political difficulty of cutting subsidy programs even when they are poorly targeted, reflect loss aversion at work in the political economy of budgeting.

Present bias, the tendency to overweight immediate costs and benefits relative to future ones, explains the chronic underinvestment in public goods whose benefits accrue slowly, including preventive public health, early childhood education, long-run climate adaptation infrastructure, and institutional reform programs whose payoffs emerge over decades. Present-biased political actors will systematically favor visible, immediate-impact expenditures (infrastructure ribbon-cuttings, one-time transfers) over slower-yielding but higher-social-return investments. Bangladesh's public health and education spending patterns, particularly the chronic underfunding of preventive and community-level health services in favor of tertiary hospital construction, reflect present bias in fiscal allocation.

Mental accounting, the tendency to treat money differently depending on how it is categorized or framed rather than its actual economic value, explains why the formal separation of Bangladesh's budget into revenue and development components (a legacy of the dual budget structure) has had behavioral consequences beyond its technical design: it creates psychological compartments that bias actors toward treating the two budgets as separate domains with different governance logics, rather than as unified fiscal flows that should be managed with a single coherent logic.

Social norm effects, the finding that people are strongly influenced by what they believe others in their reference group do, have practical applications in tax compliance policy. Research in multiple country contexts has demonstrated that informing taxpayers about the compliance behavior of their peers (for example, telling businesses that 87 percent of businesses in their sector file their taxes on time) increases compliance rates significantly, at near-zero fiscal cost. Bangladesh's revenue administration has not systematically deployed social norm-based compliance interventions, representing a missed opportunity in the behavioral fiscal toolkit.

A new framework synthesizing behavioral insights for Bangladesh's fiscal system is the Behavioral Fiscal Architecture, defined as the intentional design of fiscal institutions, processes, and communications to leverage known behavioral tendencies toward desirable fiscal outcomes, reducing reliance on enforcement-heavy compliance approaches and increasing the salience, simplicity, and social normalization of fiscal participation.

The Behavioral Fiscal Architecture for Bangladesh would involve, at minimum: simplifying the personal income tax return to a single page for taxpayers below a threshold, with pre-populated data from employer and bank records; using social norm messaging in NBR communications to normalize tax compliance among traders and professionals; designing the ADP project selection process to automatically exclude projects below a minimum economic return threshold, creating a default that shifts the burden of proof to project inclusion rather than project exclusion; and redesigning social protection beneficiary identification to default toward inclusion rather than exclusion, with verification after enrollment rather than before.

39.5 The Fiscal Theory of the Price Level: Reconsidering Inflation in Bangladesh

The Fiscal Theory of the Price Level (FTPL), associated with the work of John Cochrane, Eric Leeper, and Christopher Sims, offers an unconventional but increasingly influential framework for understanding the relationship between fiscal policy and inflation. In contrast to the standard monetarist view, in which inflation is determined primarily by monetary policy and the money supply, the FTPL holds that the price level is determined by the ratio of nominal government debt to the present value of expected future primary fiscal surpluses.

Under the FTPL, if financial markets believe that a government's fiscal trajectory is unsustainable (that future surpluses will be insufficient to retire the outstanding debt), they will demand a depreciation of the real value of outstanding debt through inflation, regardless of what the central bank does with interest rates. This generates an inflation dynamic driven by fiscal expectations rather than by monetary conditions.

This framework has relevance for understanding Bangladesh's inflation experience of 2022 to 2024. The standard explanation focuses on imported cost-push inflation (oil, food, fertilizer price shocks) and monetary accommodation. The FTPL would add a fiscal channel: the significant increase in government borrowing from Bangladesh Bank during 2020 to 2022, combined with the visible deterioration of foreign exchange reserves and the weakening of fiscal credibility, may have contributed to inflationary expectations that amplified the cost-push impulse. If economic actors expected that the government would eventually inflate away a portion of its debt burden, the resulting inflation premium would be built into price-setting behavior, creating self-fulfilling inflationary dynamics.

The policy implication of the FTPL for Bangladesh is a principle this textbook names the Principle of Fiscal Credibility Anchoring: the recognition that monetary policy alone cannot durably control inflation in an economy where fiscal expectations are unsettled, and that the most important anti-inflation policy is a credible, transparent, and independently monitored medium-term fiscal consolidation plan that persuades financial actors that the government will run adequate primary surpluses to service its debt without recourse to monetary financing. The IMF program of 2023, with its performance benchmarks on revenue collection, borrowing limits, and exchange rate management, is partly an exercise in Fiscal Credibility Anchoring.

39.6 Exam Questions: Chapter Thirty-Nine

Questions for BEcon Examination

What is Fiscal System Complexity? Identify three examples from Bangladesh's budget experience that illustrate the properties of a complex fiscal system (non-linearity, path dependence, emergent behavior). (20 marks)

Explain the Principle of Adaptive Fiscal Governance. How does it differ from the standard approach to fiscal reform promoted by international financial institutions? (15 marks)

What is the Behavioral Fiscal Architecture? Identify three specific behavioral interventions that could be incorporated into Bangladesh's tax administration without changing any tax rates. (15 marks)

Questions for BSS (Economics) Examination

Apply the Sectoral Balances framework from post-Keynesian economics to Bangladesh's FY2025-26 budget. What does the framework imply about the appropriate fiscal deficit given the current state of the private sector and the current account? (15 marks)

Explain the Doctrine of Functional Fiscal Balance. Is it compatible with the IMF's fiscal conditionalities for Bangladesh? (12 marks)

What is the Principle of Fiscal Credibility Anchoring? What specific policy actions are most important for establishing fiscal credibility in Bangladesh's current situation? (10 marks)

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Questions for MSS (Economics) Examination

Critically evaluate complexity economics as a framework for understanding Bangladesh's fiscal system. What specific analytical insights does it offer that neoclassical or new Keynesian frameworks miss? Are there limits to complexity economics as a guide to policy? (30 marks)

Apply Douglass North's framework of formal rules and informal constraints to analyze why Bangladesh's MTBF reform has produced limited behavioral change in budget allocation despite formal institutional adoption. What would the NIE recommend as a reform strategy that could produce genuine behavioral transformation? (25 marks)

CHAPTER FORTY: GLOBAL FISCAL INTEGRATION, INTERNATIONAL TAX ARCHITECTURE, AND BANGLADESH'S POSITION IN THE NEW FINANCIAL ORDER

40.1 A New Definition: Sovereign Fiscal Exposure

Sovereign Fiscal Exposure is the composite degree to which a country's budget, in terms of both its revenue base and its expenditure requirements, is subject to forces and decisions originating outside its territorial sovereignty, including international tax cooperation agreements, multilateral debt conditionalities, global commodity price movements, international financial market conditions, foreign exchange rate dynamics, and the extra-territorial tax decisions of major economies, such that a deterioration in any of these external dimensions translates directly and materially into a deterioration of the country's fiscal position.

This definition extends beyond simple measures of external debt dependence or export concentration to capture the full range of channels through which global fiscal integration penetrates domestic fiscal sovereignty. Bangladesh in 2026 has high Sovereign Fiscal Exposure across multiple channels simultaneously, which is a central feature of its fiscal vulnerability.

Understanding Sovereign Fiscal Exposure requires mapping each of its channels with precision.

The commodity price channel is among the most powerful. Bangladesh is a net importer of fuel (oil and LNG), fertilizer, cotton, wheat, and edible oil, and a net exporter primarily of garments and low-value processed goods. A rise in global commodity prices thus generates a terms-of-trade deterioration that increases the import bill, puts pressure on the foreign exchange account, potentially forces the government to increase energy and fertilizer subsidies to shield domestic users (increasing expenditure) or to pass price increases through to consumers (increasing inflation and welfare costs), and slows GDP growth in import-dependent industries. The Russia-Ukraine war of 2022 exposed this channel with devastating clarity: Bangladesh's fuel and fertilizer subsidy costs increased by tens of thousands of crore taka, contributing directly to the fiscal stress that drove the IMF approach.

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The exchange rate channel operates through Bangladesh's external debt obligations. Approximately one-third of Bangladesh's public external debt is denominated in US dollars, with additional portions in Japanese yen and Chinese yuan. When the taka depreciates against these currencies, as it did sharply from 2022 to 2024 (the taka went from approximately Tk 85 per dollar to over Tk 110 per dollar), the domestic currency cost of servicing this debt increases proportionately, even though the underlying economic activity generating the fiscal revenue is not growing proportionately. The exchange rate channel of Sovereign Fiscal Exposure is a structural feature of debt-financed public investment that no single budget can engineer away.

The international financial market channel affects Bangladesh through the cost of new sovereign borrowing. As Bangladesh's credit risk assessment has moved from low to moderate risk of debt distress (per the IMF/WB DSA published in August 2025), the cost of accessing commercial international financing instruments, including sovereign bonds or non-concessional multilateral lending, has increased. This channel becomes increasingly important as LDC graduation phases out concessional access, because it determines whether Bangladesh can replace lost concessional funding with commercial alternatives at fiscally sustainable rates.

The international tax cooperation channel, while currently relatively weak for Bangladesh, is growing in importance. The OECD's Base Erosion and Profit Shifting (BEPS) project and the associated Pillar One (reallocation of taxing rights on digital companies' profits) and Pillar Two (global minimum corporate tax of 15 percent) frameworks represent a significant restructuring of the international rules governing how multinational corporate profits are taxed across jurisdictions. Bangladesh's participation in these frameworks affects how much corporate tax it can collect from foreign investors operating in the country, whether its tax incentive regimes for export processing zones and technology parks remain WTO-compliant, and how much protection it has against the tax avoidance strategies of domestic conglomerates with international operations.

40.2 The OECD/G20 Minimum Tax Framework and Bangladesh's Response

The Pillar Two global minimum corporate tax, agreed by 140 countries under the OECD Inclusive Framework in October 2021, requires that multinational enterprises with global revenues above EUR 750 million pay a minimum effective tax rate of 15 percent on their profits in every jurisdiction where they operate. Where a low-tax jurisdiction does not impose the minimum, the parent company's home country is entitled to collect the difference (the Income Inclusion Rule, or IIR) or the jurisdictions where economic substance is present may impose a top-up tax (the Qualified Domestic Minimum Top-up Tax, or QDMTT).

Bangladesh faces a specific policy challenge from Pillar Two. Its current tax incentive regime, which offers multi-year tax holidays of up to 10 years for investments in certain special economic zones, export processing zones, and technology parks, results in effective tax rates below 15 percent for many qualifying multinationals. Under Pillar Two, if Bangladesh does not itself tax these profits to the 15 percent minimum through a QDMTT, the parent country of the multinational investor (typically a developed country that has implemented IIR) will collect the difference. This means Bangladesh's tax holiday, instead of benefiting the investor, merely

transfers the tax revenue from Bangladesh to the foreign government. The incentive no longer reduces the investor's total tax bill; it reduces Bangladesh's revenue.

This dynamic fundamentally changes the cost-benefit analysis of Bangladesh's tax holiday regime. If tax holidays no longer attract investment by lowering the investor's total tax burden (because the home country taxes away the holiday benefit), and they cost Bangladesh the revenue it would otherwise have collected, the net fiscal outcome is a loss to Bangladesh with no investment attraction benefit. The appropriate response is to redesign investment incentives away from profit tax holidays and toward cost-based incentives (accelerated depreciation, investment tax credits on capital expenditure, R&D super-deductions) that reduce the effective cost of investment without creating the low-effective-rate problem that Pillar Two targets.

A new principle relevant here is the Principle of Incentive Compatibility in International Tax, which holds that a country's tax incentive regime must be designed to remain effective under the international tax rules that govern the treatment of those incentives in investors' home jurisdictions, and that incentives which merely redistribute tax revenue from the host country to the investor's home government without reducing the investor's total burden should be replaced with incentive instruments that retain effectiveness under the evolving international framework.

40.3 Transfer Pricing, Profit Shifting, and Bangladesh's Revenue Losses

Transfer pricing refers to the prices at which related entities within the same multinational group sell goods, services, or intellectual property to each other across international borders. Because these transactions are between related parties, they do not face the disciplining force of arm's length market competition, and there is significant latitude for manipulation: by pricing intra-group transactions such that profits accumulate in low-tax jurisdictions, multinational groups can dramatically reduce their global tax bills.

Bangladesh loses significant revenue to transfer pricing manipulation, although the precise amount is difficult to estimate given limited transparency in corporate financial reporting. The garment sector provides a particularly salient example: when a Bangladeshi garment manufacturer sells to a buying house in a low-tax jurisdiction, which then sells to the ultimate EU or US retail customer, the profit on the transaction may be largely captured by the buying house rather than the manufacturer, even if the manufacturer performs most of the economic work. This is not necessarily illegal, but it results in the economic value created in Bangladesh escaping the Bangladeshi tax net.

The National Board of Revenue has transfer pricing regulations on the books, following the 2012 Income Tax Ordinance amendments that introduced transfer pricing rules consistent with OECD guidelines. However, enforcement capacity is extremely limited: the NBR has very few transfer pricing officers with the technical skills required to conduct transfer pricing audits of complex multinational transactions, no effective mechanism for international tax information exchange with most of Bangladesh's major trading partners, and limited access to the global databases of comparable transactions needed for arm's-length analysis.

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Building a genuine transfer pricing enforcement capacity requires investment in both human capital (training economists with international tax expertise) and digital infrastructure (subscription to international tax databases, integration with the Automatic Exchange of Information (AEOI) system under the Common Reporting Standard) and political will to challenge large corporate groups that have substantial leverage over the government through their employment and investment roles.

A new concept capturing the fiscal cost of weak transfer pricing enforcement is Revenue Leakage Through Fiscal Arbitrage: the annual loss to the domestic tax base that results from the ability of economically significant entities to exploit cross-jurisdictional differences in tax systems, regulatory frameworks, and enforcement capacity to divert taxable profit from high-enforcement to low-enforcement jurisdictions, effectively undermining the sovereign taxing power without violating any single country's domestic legal framework.

40.4 The Global Minimum Tax, Climate Finance, and the Architecture of the New International Fiscal Order

The international fiscal order is being restructured in the 2020s in ways that extend well beyond corporate tax minimum rates. Several converging trends are reshaping the rules within which Bangladesh's fiscal sovereignty operates.

The Carbon Border Adjustment Mechanism (CBAM) of the European Union, which began its transitional phase in October 2023, will impose a carbon price on imports of certain goods whose production generates greenhouse gas emissions not priced under an equivalent domestic carbon pricing system. The initial sectors covered are steel, aluminum, cement, fertilizer, hydrogen, and electricity. Future extensions to include manufactured goods, including garments or their input materials, are possible. If CBAM principles extend to manufactured goods, Bangladesh's exports could face additional cost burdens from the difference between the EU's carbon price and Bangladesh's current absence of any carbon pricing mechanism.

This creates a new fiscal imperative for Bangladesh: introducing a domestic carbon pricing mechanism not only for environmental reasons but for fiscal sovereignty reasons, specifically to avoid paying the CBAM to the EU rather than collecting an equivalent revenue domestically. The Principle of Fiscal Sovereignty in Climate Pricing holds that a country without a domestic carbon price is, in effect, ceding carbon pricing revenue to the countries that impose import carbon adjustments, and that a revenue-neutral domestic carbon pricing scheme (where carbon revenue funds either tax cuts or direct transfers to affected households) is fiscally superior to the alternative of paying the same implicit carbon price to foreign governments.

The rise of sustainability finance, including ESG-conditioned investment, green bonds, sustainability-linked loans, and blended finance instruments from climate funds, represents both an opportunity and a challenge for Bangladesh's fiscal architecture. It is an opportunity because it potentially provides access to large pools of private capital for green infrastructure investment at concessional rates, contingent on verifiable environmental and social performance. It is a challenge because accessing this capital requires institutional capacity for green project

definition, monitoring, verification, and reporting that Bangladesh's public investment management system currently lacks.

The development of Central Bank Digital Currencies (CBDCs) by major economies, including China's digital yuan, the potential digital dollar from the Federal Reserve, and the ECB's digital euro, may have significant implications for Bangladesh's fiscal and monetary architecture in the medium term. CBDCs could facilitate more direct digital payment of remittances, potentially reducing the cost of inward remittance flows that are critical to Bangladesh's balance of payments and thus to its fiscal sustainability. They could also create new mechanisms for cross-border tax information exchange that improve Bangladesh's transfer pricing enforcement capacity. And they could, in adverse scenarios, accelerate capital flow volatility if digital currency adoption facilitates faster cross-border capital movement.

40.5 Bangladesh's Role in South-South Fiscal Architecture

Bangladesh is not merely a recipient of the international fiscal order but an increasingly active participant in its evolution. Its successful economic transformation, its garment industry's global role, its position as one of the largest recipients of development finance, and its growing population of overseas workers in the Middle East, Southeast Asia, and Europe give it a stake in multiple dimensions of the international economic system.

South-South Cooperation in fiscal and development finance is an area where Bangladesh could take a more assertive role. The growing importance of multilateral development banks with non-Western governance, including the New Development Bank (NDB) associated with BRICS, the Asian Infrastructure Investment Bank (AIIB) of which Bangladesh is a member, and the Islamic Development Bank, creates opportunities for Bangladesh to diversify its financing relationships and reduce dependence on the traditional Western-dominated IFI architecture. The AIIB, in particular, has funded several Bangladesh infrastructure projects and offers a financing relationship without the governance conditionalities of World Bank or IMF programs.

A new philosophy relevant to Bangladesh's international fiscal positioning is the Philosophy of Diversified Fiscal Multilateralism: the recognition that Bangladesh's long-run fiscal sovereignty is best served not by alignment with any single international financial architecture but by active participation in multiple overlapping international financial relationships, maintaining the negotiating leverage that comes from having multiple credible financing alternatives while building the domestic institutional capacity that ultimately determines how much leverage any external actor has.

40.6 Exam Questions: Chapter Forty

Questions for BEcon Examination

Define Sovereign Fiscal Exposure. Identify four channels through which Bangladesh's budget is exposed to external forces and for each channel, provide a specific example from Bangladesh's experience between 2021 and 2026. (20 marks)

Explain the Pillar Two global minimum corporate tax and its specific implications for Bangladesh's tax holiday regime. What does the Principle of Incentive Compatibility in International Tax require Bangladesh to do in response? (15 marks)

What is Revenue Leakage Through Fiscal Arbitrage? Identify two sectors in Bangladesh where this leakage is most significant and explain why. (12 marks)

Questions for BSS (Economics) Examination

Explain the Carbon Border Adjustment Mechanism and the Principle of Fiscal Sovereignty in Climate Pricing. Should Bangladesh introduce a domestic carbon price? What would a revenue-neutral design look like? (15 marks)

What is the Philosophy of Diversified Fiscal Multilateralism? How does Bangladesh's current financing relationship with the IMF, World Bank, AIIB, and bilateral lenders reflect or fail to reflect this philosophy? (12 marks)

Questions for MSS (Economics) Examination

Conduct a comprehensive analysis of Bangladesh's position in the emerging international fiscal order, covering the OECD Pillar One and Pillar Two frameworks, the CBAM, the Common Reporting Standard, and the implications of CBDC development. Assess the net revenue impact of these frameworks on Bangladesh over the 2025-2035 period and recommend a comprehensive international tax strategy for Bangladesh. (35 marks)

CHAPTER FORTY-ONE: BEHAVIORAL ECONOMICS, FISCAL PSYCHOLOGY, AND THE ARCHITECTURE OF COMPLIANCE CULTURE IN BANGLADESH

41.1 A New Definition: Fiscal Citizenship Quotient

The Fiscal Citizenship Quotient (FCQ) of a society is a composite measure of the degree to which members of that society internalize the norms, obligations, and reciprocal expectations that constitute fiscal citizenship, specifically the willingness to pay taxes honestly, the belief that public money is used responsibly for public benefit, the expectation that fellow citizens are similarly complying, and the sense of shared ownership of public institutions, calibrated against the structural and historical factors that promote or undermine these internalized norms.

A high FCQ does not require that all citizens love paying taxes, but it does require that the dominant social norm treats tax evasion as a civic violation rather than a clever personal achievement, and that there is a generalized expectation of reciprocity between fiscal contribution and public service quality. High-FCQ societies include the Nordic countries, which consistently report the highest tax compliance rates and the highest satisfaction with public services globally, and several East Asian economies including Japan and South Korea, where public fiscal norms are strongly internalized.

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Bangladesh has a low Fiscal Citizenship Quotient, and understanding why is essential for designing effective compliance improvement strategies. The low FCQ reflects a combination of historical, structural, and institutional factors.

Historically, the experience of colonial taxation created a deeply embedded norm of tax as an extraction by an alien power rather than a contribution to a shared project. The British colonial revenue system, particularly its land revenue arrangements and customs duties, was designed to extract maximum value for the imperial economy rather than to fund the welfare of Bangladeshi subjects. The post-independence inheritance of this system, without a genuine social contract transformation that established tax compliance as a civic norm of the newly sovereign people, meant that the colonial-era non-compliance norms were transplanted into the independent state.

Structurally, the low quality of public services received in exchange for taxes paid fundamentally undermines the reciprocity logic of fiscal citizenship. When a taxpayer in Dhaka pays income tax but sends their children to private school because government schools provide inadequate education, consults private doctors because government hospitals are perceived as inaccessible and poor quality, and pays private security because the public police force is seen as unreliable, the transaction logic of fiscal citizenship breaks down. Paying taxes feels like paying for something that is not delivered.

Institutionally, the perception of widespread corruption in tax administration, in which assessors demand bribes, enforcement is selective and politically influenced, and large taxpayers negotiate their liabilities informally, destroys the fairness norm that sustains compliance. If tax payment is perceived as paying twice (once to the state, once to the official who processes the return), the rational response for many taxpayers is to minimize engagement with the system.

41.2 The Psychology of Tax Compliance: Why Bangladeshis Do Not Pay Their Taxes

The research literature on tax compliance, synthesized from laboratory experiments, natural experiments, and field studies in multiple country contexts, identifies several psychological mechanisms that influence compliance decisions beyond the rational expected utility calculus of the standard model (probability of detection times penalty, compared against the benefit of evasion).

The deterrence hypothesis from standard economics holds that compliance increases when audits become more frequent and penalties more severe. Bangladesh's response to its compliance gap has been primarily deterrence-based: periodic amnesty schemes followed by enforcement crackdowns, announcements of widened audit coverage, and threats of severe penalty. The evidence from behavioral economics suggests these deterrence strategies are less effective than their proponents hope, for several reasons.

First, detection probability perceptions are not calibrated to actual detection rates. Research consistently finds that people systematically underestimate the probability of audit when that probability is objectively low, and overestimate it when it is high. In Bangladesh, where audit coverage of the registered taxpayer base is a small fraction and audit selection is perceived as politically motivated, the deterrence signal is weak and inconsistently transmitted.

Second, when enforcement is perceived as unfair or discriminatory (large politically connected businesses escape scrutiny while small traders face harassment), the legitimacy norm that supports compliance collapses. Legitimacy-based compliance, in which taxpayers comply because they believe the system is fair and the government is acting in good faith, is actually more robust and cost-effective than deterrence-based compliance, but it requires genuine institutional fairness.

Third, the interaction between tax officials and taxpayers in Bangladesh is often characterized by negotiated compliance rather than rule-based assessment: tax liabilities are settled through informal negotiation, with the final amount depending on the relative bargaining power of the taxpayer and the inspector rather than on the actual income or profit earned. This negotiation structure creates a category of compliance that shows up in the statistics (the taxpayer filed a return and paid a tax) but represents neither honest reporting nor effective collection of the tax legally owed.

The behavioral solution to Bangladesh's compliance problem is not primarily about deterrence but about what researchers call third-generation tax compliance theory, which holds that the most effective compliance improvement comes from three simultaneous interventions: improving the perceived fairness of the system, reducing the compliance cost and complexity for honest taxpayers, and deploying social norm and identity-based interventions that associate tax compliance with positive civic identity.

Fairness improvement requires, above all, that large taxpayers and politically connected individuals actually pay what they owe. Nothing destroys compliance norms among small and medium taxpayers faster than the perception (which in Bangladesh corresponds closely to reality) that the wealthy and politically connected pay effectively nothing. The NBR's large taxpayer unit (LTU), which covers the largest corporate taxpayers, needs significant strengthening of its audit capacity and independence from political interference.

Compliance cost reduction is achievable through digitization: pre-populated returns, mobile tax filing, simplified assessment for micro and small enterprises, automatic integration of payroll withholding at source, and real-time bank data sharing for income verification. The technology exists; what is needed is the institutional commitment to deploy it fairly and universally.

Social norm interventions have demonstrated effectiveness in multiple low-compliance environments. In a natural experiment in Bangladesh's context, informing tax-registered traders in a district that most of their peers were complying with filing requirements significantly increased filing rates compared to a control group, at near-zero administrative cost. Scaling these behaviorally-informed communication strategies across NBR's taxpayer engagement program represents one of the highest return-on-investment compliance improvements available.

A new philosophy synthesizing these compliance insights is the Philosophy of Reciprocal Fiscal Trust, which holds that tax compliance is fundamentally a relationship of mutual trust between the citizen and the state, in which the citizen's willingness to comply is conditioned on the state's demonstrated reliability in delivering public services, the perceived fairness of the compliance burden relative to peers, and the institutional signals that the government is itself complying with

its obligations of transparency and accountability. Building Reciprocal Fiscal Trust requires simultaneous action on both sides of the relationship: the state cannot demand compliance while continuing to fail its citizens in service delivery and allowing corruption in its own institutions.

41.3 The Behavioral Economics of Public Spending: Cognitive Biases in Budget Allocation

Behavioral economics applies not only to taxpayer compliance but to the behavior of government officials and political actors who make budget allocation decisions. Research in behavioral political economy and organizational psychology identifies several systematic biases that shape public spending decisions in ways that deviate from the welfare-maximizing ideal.

The identifiable victim effect holds that decision-makers allocate more resources to visible, individualized victims of a problem than to the statistical victims of the same problem. This bias explains why Bangladesh's budget systematically over-allocates to visible emergency relief (flood response, cyclone rehabilitation) relative to the preventive investments (embankment maintenance, early warning systems, climate-resistant infrastructure) that would reduce the number of statistical victims of the same events but do not generate the same emotional salience. A child photographed in floodwaters commands a relief response; the thousands of statistical future flood victims who would be protected by a better embankment do not.

The optimism bias, the well-documented tendency of project planners to underestimate costs and overestimate benefits and timelines, explains a significant portion of Bangladesh's ADP cost overrun and implementation delay problem. Development Project Proposals are prepared by ministry officials who have incentives to present their preferred projects favorably, and the optimism bias provides psychological cover for what is also a strategic misrepresentation. Research on reference class forecasting, the technique of adjusting project cost and time estimates based on the actual outturn of a reference class of similar projects rather than the project team's own projections, demonstrates that this approach produces significantly more accurate estimates. Bangladesh's project appraisal process does not systematically use reference class forecasting, contributing to the chronic cost overrun pattern.

The status quo bias, the preference for maintaining existing allocations rather than engaging in the cognitive effort required to evaluate and redesign them, explains the incremental character of Bangladesh's budget year to year: each sector's allocation tends to be last year's plus a percentage, with fundamental reallocation across sectors extremely rare. This bias is reinforced by bureaucratic incentives (it is professionally safer to request a standard increment than to propose a radical reallocation) and by political economy (reallocation creates losers as well as winners, and losers fight harder than winners).

41.4 Nudge Theory and Its Application to Bangladesh's Expenditure System

Richard Thaler and Cass Sunstein's nudge theory holds that choice architecture, the way options are presented and defaults are set, powerfully influences choices in predictable ways without restricting freedom of choice. Applying nudge theory to the design of Bangladesh's expenditure system suggests several practical reforms.

Default enrollment rather than active enrollment in social protection programs: if the default is that all eligible households are enrolled in relevant programs and must actively opt out (rather than actively apply to opt in), the reach of programs to eligible populations increases substantially, particularly among the least educated and most isolated, who face the highest compliance costs in navigating application processes. Bangladesh's current social protection application system is active-enrollment, which systematically excludes many of the most eligible.

Commitment devices for budget execution: the chronic under-execution of the ADP reflects in part the tendency of implementing agencies to defer difficult procurement and project initiation decisions, finding it easier to defer than to commit. Commitment devices including implementation timeline contracts with milestone-linked fund releases, automatic budget carryover rules that reduce agencies' incentive to defer spending to late in the fiscal year, and public dashboard visibility of implementation progress can change the default toward timely execution.

Automatic escalation of social protection benefit values: the value of social protection transfers in Bangladesh, including the Old Age Allowance, has historically been inadequate and infrequently revised, with real values eroding with inflation between legislative adjustments. An automatic inflation indexation mechanism that annually adjusts transfer values without requiring active legislative decision would prevent real value erosion through inertia. This is a classic nudge application: changing the default from erosion to maintenance.

Loss framing in public communication about budget compliance: government communications about tax compliance tend to emphasize the positive benefits of compliance (contributing to development). Behavioral research suggests that loss framing (what public services are being lost because of non-compliance by the people around you) is more effective at motivating behavioral change. NBR communications could be redesigned to incorporate evidence-based framing research.

41.5 Exam Questions: Chapter Forty-One

Questions for BEcon Examination

Define the Fiscal Citizenship Quotient. What are the three main factors that explain Bangladesh's low FCQ? For each factor, suggest a specific policy intervention that could improve it. (20 marks)

Explain the identifiable victim effect and the optimism bias and give a specific example of each from Bangladesh's budget allocation patterns. (15 marks)

What is the Philosophy of Reciprocal Fiscal Trust? What would government actions to build this trust look like in Bangladesh? (12 marks)

Questions for BSS (Economics) Examination

Explain third-generation tax compliance theory. How does it differ from the traditional deterrence approach? Identify three specific interventions consistent with third-generation theory that Bangladesh's NBR should implement. (15 marks)

Apply nudge theory to design three specific improvements to Bangladesh's social protection delivery system that would increase coverage of eligible households without changing eligibility criteria or benefit levels. (12 marks)

Questions for MSS (Economics) Examination

Critically evaluate the application of behavioral economics to tax policy design in the context of a low-income country with high informality and weak institutions like Bangladesh. What are the theoretical foundations and empirical evidence for behaviorally-informed compliance strategies, and what are their limitations? (30 marks)

Construct a comprehensive Behavioral Fiscal Architecture for Bangladesh, drawing on the concepts of FCQ, third-generation compliance theory, nudge theory, and choice architecture. Specify the institutional changes, communication reforms, and procedural redesigns required, and assess the likely revenue and welfare impact of full implementation. (30 marks)

CHAPTER FORTY-TWO: THE GEOPOLITICS OF AID, DEBT, AND FISCAL SOVEREIGNTY: BANGLADESH IN THE NEW WORLD ORDER

42.1 A New Definition: Geoeconomic Fiscal Positioning

Geoeconomic Fiscal Positioning is the strategic management by a sovereign state of its mix of external financing relationships, including multilateral development finance, bilateral aid, commercial borrowing, and geopolitically motivated infrastructure investment, to maximize fiscal autonomy, minimize conditionality costs, preserve strategic room for domestic policy maneuver, and hedge against the concentration risk of dependence on any single external financier or financing ideology.

This definition differs from the standard concept of debt management, which focuses narrowly on cost minimization and maturity structuring, to capture the explicitly political dimension of external financing relationships. In the contemporary geopolitical environment, where Chinese infrastructure investment, American alliance management, multilateral conditionality, and climate finance architecture all intersect in the external financing landscape of a country like Bangladesh, Geoeconomic Fiscal Positioning is not a luxury but a strategic necessity.

Bangladesh's external financing relationships as of 2026 include the following major categories. Multilateral lending from the World Bank Group (IBRD and IDA), the Asian Development Bank, the Asian Infrastructure Investment Bank, and the Islamic Development Bank represents the largest single category by outstanding stock. Bilateral lending from Japan (the largest bilateral creditor), China (with significant lending for the Padma Rail Bridge, Karnaphuli

Tunnel, and other infrastructure), India, Russia (for the Rooppur Nuclear Power Plant, a USD 12.65 billion project financed predominantly by Russian state credits), and Western bilateral development agencies. Commercial borrowing including the 2023 Eurobond and various trade credits. And grant aid from multiple bilateral donors including the United States, the European Union, and the United Kingdom.

Each category of external financing carries a distinct combination of financial cost, conditionality, and geopolitical implication. The IMF Extended Credit Facility, while providing essential fiscal support, carries detailed conditionalities that constrain Bangladesh's fiscal choices. Chinese infrastructure lending typically carries no governance conditionalities but reflects China's strategic interest in the Belt and Road connectivity architecture and comes at commercial or near-commercial terms. Russian nuclear lending for Rooppur is at concessional cost terms with a long repayment period, but it ties Bangladesh's energy security to Russia for decades and creates geopolitical complication given Western sanctions on Russia following the Ukraine war. Western bilateral aid increasingly comes with democracy and human rights conditionalities that the interim government must navigate carefully.

42.2 The Debt Geopolitics of the Belt and Road Initiative

China's Belt and Road Initiative (BRI), which Bangladesh joined in 2016, has contributed significant infrastructure financing to Bangladesh, primarily for transport and energy projects. As of 2024-2025, Chinese lending to Bangladesh for BRI-related projects is estimated at approximately USD 5 to 7 billion outstanding, with projects including the Karnaphuli Tunnel in Chittagong, the Padma Rail Bridge Link (distinct from the Padma Bridge), and various power plants under the Bangladesh-China Power Company (BCPC) arrangement.

The geopolitical implications of BRI lending have attracted extensive academic and policy debate. The debt trap diplomacy thesis, associated with analysts including Brahma Chellaney, argues that China uses BRI lending to engineer strategic leverage over borrower countries by structuring loans to facilitate asset seizure or policy concession extraction when borrowers face repayment difficulties. The counter-argument, supported by more systematic empirical research including the work of the AidData research lab and Deborah Brautigam's research on China in Africa, is that debt trap cases are rare and that most Chinese lending reflects commercial and infrastructure objectives rather than strategic trap-setting.

For Bangladesh specifically, the available evidence suggests that Chinese BRI lending has been commercially motivated, with terms that are more expensive than multilateral concessional lending but not categorically different from commercial infrastructure financing. The more significant concern for Bangladesh is not debt trap mechanics but the accumulation of a substantial portion of its external debt portfolio with a single creditor (China), which reduces its bargaining leverage in restructuring negotiations if repayment stress emerges, and the strategic alignment implications of deep infrastructure interdependence with a geopolitical actor that is engaged in strategic competition with Bangladesh's other major partners.

A new doctrine relevant here is the Doctrine of Creditor Portfolio Diversification, which holds that a country's debt sustainability is determined not only by the aggregate debt-to-GDP and debt

service ratios tracked in standard DSA analysis but by the degree of diversification in its creditor portfolio, where high concentration of debt with any single creditor creates exposure to that creditor's strategic decisions about restructuring, rollover, and conditionality that cannot be managed through standard fiscal policy instruments.

42.3 The Iran War Context and Its Fiscal Implications for Bangladesh

The Iran War, ongoing as of early 2026 following escalation of regional tensions in late 2025, has introduced a major new source of global economic uncertainty with direct fiscal implications for Bangladesh.

Bangladesh's direct exposure to the Iran War is primarily through the energy and commodity channel. The Strait of Hormuz, through which approximately 20 percent of global oil trade passes, runs adjacent to the conflict zone. Any disruption to oil tanker passage through the strait raises global oil prices significantly, with immediate transmission into Bangladesh's fuel import costs, energy subsidy requirements, and the macroeconomic inflation dynamics that complicate fiscal stabilization. The global LNG market is particularly exposed, as Iran, Qatar, and other Gulf states are major LNG exporters; any military disruption to Gulf energy infrastructure would severely tighten LNG markets at a moment when Bangladesh's dependence on LNG imports is at its highest.

Bangladesh also has significant remittance exposure to the Middle East. Approximately 60 to 70 percent of Bangladesh's overseas remittance workers are in Gulf Cooperation Council (GCC) countries, primarily Saudi Arabia, UAE, Qatar, Kuwait, and Bahrain. Remittances from these workers constitute a critical source of household income for millions of Bangladeshi families and represent approximately 5 to 7 percent of GDP, contributing significantly to foreign exchange reserves and thus to the budget's external balance position. Any destabilization of Gulf economies or mass evacuation of migrant workers from conflict-proximate areas would produce an immediate remittance shock with severe fiscal consequences.

The FY2026-27 budget preparation is occurring under explicit awareness of this Iran War uncertainty, making the concept of fiscal scenario planning more important than usual. Rather than a single macro-economic framework projection, the responsible approach is to develop three scenarios: a baseline scenario in which the Iran War remains contained to the Strait region without major disruption to Gulf economies or oil shipping; an adverse scenario in which there is a six-month significant oil supply disruption raising global oil prices by 40 to 60 percent above baseline; and a severe scenario in which GCC economies face significant instability with large-scale migrant worker displacement.

The fiscal implications across these scenarios differ dramatically. Under the baseline, the budget can proceed on approximately its planned trajectory with modest energy subsidy increases. Under the adverse scenario, the fuel subsidy bill could increase by Tk 20,000 to 40,000 crore, foreign exchange reserves would face renewed pressure, and the IMF program's balance of payments projections would need revision. Under the severe scenario, the combination of oil price shock and remittance collapse could create fiscal stress comparable to the 2022-2024 crisis, potentially requiring a new IMF program or significant emergency financing.

A new concept relevant to this uncertainty environment is Fiscal Scenario Resilience: the degree to which a fiscal framework has been designed to remain functionally solvent across a defined range of adverse scenarios without requiring extraordinary measures, measured by the spread of fiscal outcomes across scenarios relative to the baseline, discounted by the probability weights assigned to each scenario.

42.4 The Architecture of Bangladesh's Aid Relationships: News, Views, and the Political Economy of Development Finance

Bangladesh's relationship with its major bilateral donors and multilateral lenders has evolved significantly since the 1990s, and understanding this evolution requires attention to how aid relationships are conducted, negotiated, and publicly communicated.

The news and views dimension of development finance is important and frequently underappreciated in academic fiscal analysis. Aid relationships are not purely technocratic: they are political relationships that are managed in part through public communication, media framing, and the management of narratives about development progress and governance quality. When the World Bank, the IMF, or major bilateral donors make statements about Bangladesh's economy, these statements shape the expectations of financial markets, influence the government's reputational incentives, and affect the domestic political salience of fiscal reform.

The publication of the Open Budget Survey, which scores countries on budget transparency and participation, has created a reputational pressure mechanism: Bangladesh's OBS score improvement from 24 (out of 100) in 2012 to higher scores in recent surveys has been publicized by the Finance Ministry as evidence of reform progress, creating domestic and international credibility signals. The CPD's annual budget analysis, the International Monetary Fund's Article IV consultation reports, and the World Bank's systematic country diagnostics are all public communications that shape the informational environment within which Bangladesh's fiscal policy is made and evaluated.

The political economy of development finance communication creates specific dynamics around conditionality. IMF conditions, particularly around revenue collection targets, exchange rate management, and state bank reform, generate political controversy in Bangladesh, as they have in most program countries. The government must manage a delicate balance between demonstrating compliance to retain program financing and avoiding the domestic political cost of being seen to implement externally imposed austerity. This communication challenge is a genuine governance problem: how does a government honestly acknowledge the constraints its fiscal position requires without ceding the appearance of sovereign agency?

A new philosophy relevant to this challenge is the Philosophy of Transparent Constraint Acknowledgment, which holds that a government's credibility with both domestic and international audiences is best served by honest public acknowledgment of the constraints it operates under, including IMF conditionalities, debt service obligations, and revenue limitations, combined with a clear articulation of the government's own strategic priorities within those constraints, rather than either obscuring the constraints through triumphalist budget rhetoric or blaming all unpopular fiscal choices on external actors.

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42.5 Exam Questions: Chapter Forty-Two

Questions for BEcon Examination

Define Geoeconomic Fiscal Positioning. How does Bangladesh's current mix of external financing relationships reflect or fail to reflect this concept? Identify two specific rebalancing moves that would improve Bangladesh's Geoeconomic Fiscal Positioning. (20 marks)

What is the Doctrine of Creditor Portfolio Diversification? Apply it to an analysis of Bangladesh's Chinese BRI debt exposure. (15 marks)

What is Fiscal Scenario Resilience? Construct a simple two-scenario fiscal framework for Bangladesh's FY2026-27 budget (baseline and adverse Iran War scenario) and identify the key fiscal adjustment levers available. (12 marks)

Questions for BSS (Economics) Examination

Explain the Iran War's potential fiscal impact on Bangladesh through the energy channel and the remittance channel. Quantify the potential additional fiscal cost under a moderately adverse scenario. (15 marks)

What is the Philosophy of Transparent Constraint Acknowledgment? Apply it to a critical analysis of how Bangladesh's Finance Ministry communicates the IMF conditionalities embedded in the FY2025-26 budget. (12 marks)

Questions for MSS (Economics) Examination

Critically evaluate the debt trap diplomacy thesis as applied to Bangladesh's BRI debt exposure. Drawing on both empirical research on BRI lending outcomes and Bangladesh-specific data on Chinese loan terms and project performance, assess the actual risk profile of Bangladesh's BRI portfolio. (30 marks)

CHAPTER FORTY-THREE: CLIMATE FINANCE ARCHITECTURE, GREEN BUDGETING, AND THE FISCAL DIMENSIONS OF ENVIRONMENTAL TRANSITION

43.1 A New Definition: Climate Fiscal Metabolism

Climate Fiscal Metabolism is the rate at which a country's fiscal system converts environmental vulnerability and climate risk into productive investment in adaptation and mitigation, measured by the ratio of climate-attributable public expenditure actually reaching the communities and infrastructure most exposed to climate risk, to the estimated annual cost of the climate change impacts the country faces, adjusted for the additionality of public investment relative to what would have occurred without government action.

This definition extends the concept of Fiscal Metabolism introduced in Chapter Four of Part One, specifically to the climate domain, and it captures two dimensions simultaneously: the level of climate investment and the efficiency of its targeting. A high Climate Fiscal Metabolism requires both adequate climate spending and spending that reaches the most vulnerable communities and most effective adaptation measures.

Bangladesh has one of the lowest Climate Fiscal Metabolisms among countries with high climate vulnerability. It is regularly ranked as one of the world's most climate-vulnerable countries, with 30 percent of its territory at risk of inundation by a 1-meter sea level rise, extreme weather events of increasing frequency and intensity, riverine flooding affecting millions annually, and salinity intrusion in coastal agricultural areas threatening food security for tens of millions. The economic cost of climate change to Bangladesh is estimated by various researchers at between 1 and 3 percent of GDP annually by the 2030s, rising to potentially 5 to 10 percent of GDP annually by mid-century under high-emission scenarios.

Yet the public investment system does not reflect this vulnerability with appropriate urgency. The allocation to climate resilience, environmental protection, and adaptation in Bangladesh's budget has historically been inadequate, fragmented across multiple line ministries without coherent coordination, and frequently reported as climate expenditure when projects have only marginal climate relevance. The Bangladesh Climate Change Trust Fund (BCCTF), established in 2010 as one of the world's first nationally capitalized climate funds, has operated at relatively small scale and its project selection has been criticized for poor strategic focus and governance weaknesses.

43.2 Green Budgeting: Principles, International Practices, and Bangladesh's Gap

Green budgeting is the systematic integration of environmental and climate considerations into public expenditure and revenue frameworks, encompassing climate tagging of the budget (identifying and measuring the climate relevance of each expenditure item), environmental fiscal reform (shifting taxes and subsidies toward ecological sustainability), green investment planning (directing public capital toward low-carbon and climate-resilient infrastructure), and climate risk disclosure (transparently reporting the fiscal risks associated with climate change).

The OECD's Paris Collaborative on Green Budgeting, launched in 2017 and expanded through 2025, has developed the Paris Green Budgeting Principles that provide a framework for countries to integrate green budgeting into their fiscal systems. These principles require that budgets assess their alignment with climate and environmental objectives, that environmental fiscal reforms be designed to support climate goals, and that fiscal risk assessment incorporate climate risk.

Bangladesh has taken initial steps toward green budgeting. The climate budget reporting, introduced in 2012, identifies a portion of the national budget as having climate change dimensions and is presented as part of the budget documents. For FY2025-26, approximately 6.5 percent of total expenditure was classified as climate-relevant. However, this classification methodology has been criticized by the UNDP and other evaluators for including projects with only tangential climate relevance and for failing to distinguish between adaptation expenditure

(investment in climate resilience) and mitigation expenditure (investment in emissions reduction).

A more rigorous green budgeting framework for Bangladesh requires several elements. The first is a credible climate tagging methodology: classifying expenditure using the Rio Markers system (which scores projects as principally or significantly climate-relevant) or the Climate Policy Initiative's OECD/DAC framework, rather than broad categorical claims. The second is explicit climate risk disclosure in the Medium-Term Fiscal Framework: quantifying the fiscal cost implications of different climate scenarios (1.5 degree warming versus 3 degree warming) and presenting the sensitivity of key fiscal aggregates to these scenarios. The third is a green fiscal transition plan: a medium-term roadmap for realigning fuel and energy subsidies toward clean energy, introducing a carbon pricing mechanism, and expanding climate finance mobilization from international green funds.

A new principle here is the Principle of Intertemporal Climate Fiscal Responsibility, which holds that fiscal decisions made today that lock in carbon-intensive infrastructure, sustain fossil fuel subsidies, or defer climate adaptation investment generate fiscal liabilities for future governments that are systematically undervalued in conventional fiscal frameworks because their full cost is borne decades hence. Intertemporal Climate Fiscal Responsibility requires that current budget decisions be evaluated not only on their near-term fiscal arithmetic but on their long-run contribution to or reduction of climate-attributable fiscal risk.

43.3 Bangladesh's Energy Subsidy Reform: The Fiscal and Environmental Imperative

Bangladesh's energy subsidy system constitutes one of the largest and most distorting elements of its fiscal architecture. Subsidies to the power and energy sector, including capacity payments to independent power producers, subsidies on natural gas prices, subsidies on petroleum products through the Bangladesh Petroleum Corporation (BPC), and implicit subsidies embedded in below-cost pricing by public utilities, collectively represent tens of thousands of crore taka annually.

The fiscal cost of energy subsidies increased dramatically with the global energy price shock of 2022, as LNG and oil import costs soared while domestic retail prices were held below international levels. The government's decision to absorb a portion of the international price increase as subsidy rather than pass it fully through to consumers reflected a legitimate welfare concern (sudden energy price increases fall heavily on low-income households and energy-intensive industries) but also reflected fiscal short-termism: the subsidy cost was partially financed by delaying payments to power producers, creating a quasi-fiscal debt that will need eventual resolution.

A comprehensive energy subsidy reform program has several fiscal dimensions. The elimination of untargeted general subsidies, which provide the same per-unit benefit to all consumers regardless of income, and their replacement with targeted transfers to the lowest-income households (who are more dependent on public utilities and have less ability to switch to alternative energy sources) would improve both fiscal efficiency and distributional equity. The gradual alignment of natural gas prices with import-parity reference prices, combined with

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accelerated investment in renewable energy that reduces import dependence, would reduce the long-run fiscal risk of the LNG import channel. And the resolution of the capacity payment overhang, through renegotiation of power purchase agreements with the most economically unviable independent power plants, would reduce the structural subsidy burden going forward.

The FY2025-26 budget took modest steps in this direction, allowing some petroleum product price adjustments and beginning negotiations with several IPPs. But the structural reform of the energy subsidy architecture remains incomplete, and the fiscal and environmental case for accelerating it is strong.

43.4 Climate Finance Mobilization: Green Bonds, Blended Finance, and the Fiscal Architecture of Green Investment

The global green finance market has expanded dramatically since 2015, driven by the Paris Agreement, institutional investor ESG commitments, and the development of standardized green bond frameworks. Global green bond issuance exceeded USD 500 billion annually by 2023, and blended finance instruments channeling concessional public money to leverage private climate investment have become a significant feature of international development finance.

Bangladesh has begun engaging with these instruments. Bangladesh Bank issued a regulatory framework for green finance in 2017, and several Bangladeshi commercial banks have issued green bonds for domestic climate-related lending. The government's interaction with the Green Climate Fund has included approved projects for climate-resilient infrastructure and coastal adaptation. However, the scale of Bangladesh's current green finance mobilization is far below what its adaptation and mitigation investment requirements demand.

A new concept relevant here is the Green Fiscal Leverage Ratio: the ratio of total climate investment (public plus private) mobilized for each unit of public green budget expenditure or green bond proceeds, reflecting the degree to which public fiscal instruments are effectively catalyzing private climate finance. Countries with high Green Fiscal Leverage Ratios are using public funds as a first-loss or guarantee layer that makes the risk-return profile of climate projects acceptable to private investors, multiplying the impact of each public taka.

Bangladesh's Green Fiscal Leverage Ratio is currently low: most climate investment comes directly from public budgets or fully concessional multilateral grants rather than through structures that mobilize private finance. Building a higher leverage ratio requires developing the institutional infrastructure for blended finance: a national green investment bank or facility that can warehouse and structure climate projects, provide first-loss protection to private investors, issue green bonds against a defined portfolio of climate assets, and mobilize climate-conditional loans from the GCF, the Adaptation Fund, and bilateral green finance windows.

The FY2026-27 budget presents an opportunity to establish this infrastructure. An initial capitalization of a National Climate Finance Facility of, say, Tk 5,000 to 10,000 crore, structured to leverage USD 3 to 5 of private and international climate finance for each taka of domestic fiscal input, could mobilize a climate investment pipeline significantly larger than the initial fiscal commitment suggests.

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43.5 Exam Questions: Chapter Forty-Three

Questions for BEcon Examination

Define Climate Fiscal Metabolism. Why is Bangladesh's Climate Fiscal Metabolism low despite its high climate vulnerability? Identify three specific structural reforms that could improve it. (20 marks)

What is the Principle of Intertemporal Climate Fiscal Responsibility? Give two specific examples of current fiscal decisions in Bangladesh that violate this principle. (15 marks)

Explain the Principle of Energy Subsidy Reform. What specific steps did the FY2025-26 budget take toward this reform, and what remains to be done? (12 marks)

Questions for BSS (Economics) Examination

Explain the Green Fiscal Leverage Ratio. How could Bangladesh increase its ratio through the establishment of a National Climate Finance Facility? (12 marks)

What are the five elements of a rigorous green budgeting framework? Evaluate Bangladesh's current climate budget reporting against these elements. (15 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive Climate Fiscal Reform Strategy for Bangladesh for the period 2026-2035. The strategy should cover energy subsidy reform, carbon pricing, green bond development, climate risk disclosure, and international climate finance mobilization. Estimate the net fiscal impact of full implementation and assess the distributional consequences of each major reform component. (40 marks)

CHAPTER FORTY-FOUR: THE SOCIAL CONTRACT RECONSIDERED: FISCAL PHILOSOPHY, PUBLIC HEALTH, EDUCATION, AND THE NEW WELFARE ARCHITECTURE

44.1 A New Philosophy: The Philosophy of Generative Public Spending

The Philosophy of Generative Public Spending holds that the highest and most fiscally efficient form of public expenditure is spending that simultaneously generates multiple returns: it addresses an immediate welfare need, it builds the human capabilities that sustain long-run productivity growth, it reduces future expenditure requirements by preventing conditions that would otherwise impose higher costs on the public purse, and it strengthens the social contract by demonstrating the state's commitment to its citizens' flourishing.

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This philosophy distinguishes between consumption expenditure (spending that satisfies a present need without building future capacity), investment expenditure (spending that builds physical or institutional capital), and generative expenditure (spending that does all of the above simultaneously). Education and public health, properly delivered, are the paradigmatic examples of generative expenditure: they address immediate welfare needs (learning today, preventing illness today), build human capital that sustains productivity growth across a lifetime, reduce future expenditure on remediation (prison costs for poorly-educated young people, hospital costs for preventably ill adults), and signal the state's genuine concern for its citizens.

The Philosophy of Generative Public Spending implies a specific budget evaluation criterion that goes beyond cost-benefit ratios: the Generativity Index, which measures the number of distinct, mutually reinforcing welfare returns generated per unit of public expenditure. High-Generativity Index spending should be protected and expanded even under fiscal austerity, because its multi-dimensional return means that cutting it imposes costs that multiply across multiple welfare dimensions simultaneously.

Applied to Bangladesh's FY2025-26 and projected FY2026-27 budgets, the Generativity Index analysis suggests that health and education spending, despite receiving less than the UNESCO benchmark of 4 to 6 percent of GDP for education and less than the Abuja Declaration target of 15 percent of government expenditure for health, represent the highest-Generativity Index categories in the budget and should be insulated from the fiscal consolidation that the IMF program requires in other areas.

44.2 The Architecture of Bangladesh's Public Health Budget: A Deep Investigation

Bangladesh's public health budget for FY2025-26 is approximately Tk 40,000 crore for the Ministry of Health and Family Welfare, representing approximately 0.9 to 1.1 percent of GDP, one of the lowest ratios in the world for a lower-middle income country and far below the South Asian average of around 2 to 3 percent of GDP.

This figure, already alarming, understates the depth of the problem because it conceals critical structural distortions within the health budget. The allocation between different levels of the health system is skewed heavily toward tertiary (hospital) care in urban areas and away from primary and community health care in rural areas, despite the epidemiological evidence that the most cost-effective health interventions occur at the primary care level. The salary bill for health workers and administration consumes the majority of the health recurrent budget, leaving limited funds for essential medicines, medical supplies, and facility maintenance. Capital investment in health infrastructure is channeled primarily through the ADP and tends to prioritize visible hospital construction over less glamorous but more critical investments in water and sanitation, health information systems, and cold chain logistics for vaccines.

Out-of-pocket (OOP) health expenditure in Bangladesh stands at approximately 72 to 74 percent of total health expenditure, among the highest in the world. This means that for every taka of health expenditure in Bangladesh, less than 30 paisa comes from public sources; the rest is paid directly by households at the point of care. The devastating consequence is a high rate of catastrophic health expenditure, defined as health spending that exceeds 10 percent of household

consumption: an estimated 5 to 8 percent of Bangladeshi households face catastrophic health expenditure annually, pushing hundreds of thousands into poverty.

The path toward Universal Health Coverage, which Bangladesh has formally committed to as part of its SDG framework, requires a fundamental transformation of this fiscal architecture: increasing public health spending as a share of GDP, shifting the composition of spending toward primary care and preventive services, establishing a national health insurance system that pools risk across the population and reduces OOP payments, and improving the governance of public health facilities to reduce the unofficial payments that inflate the effective OOP burden beyond the formal fees charged.

A new concept relevant to this discussion is the Public Health Fiscal Credibility Gap: the distance between a country's stated commitment to universal health coverage in its national health policy documents and plans on the one hand, and the actual resource allocation in its annual budgets on the other. Bangladesh's Public Health Fiscal Credibility Gap is large: its national health policy documents commit to UHC, to equitable access, and to significant health expenditure increases, while its successive annual budgets have maintained health spending below 1 percent of GDP. The gap is not primarily a technical failure but an institutional and political one: health competes poorly for budget allocations in a system where infrastructure projects generate more politically visible returns.

The mental health dimension of Bangladesh's health budget represents the most severely neglected area. Mental health disorders affect an estimated 18 to 20 percent of Bangladesh's adult population at any given time, with depression, anxiety disorders, PTSD (particularly prevalent in communities affected by cyclones, floods, and displacement), and substance abuse disorders among the most common. The public health system's mental health provision is essentially nonexistent at scale: less than 1 percent of the health budget is allocated to mental health, there are approximately 0.5 psychiatrists per 100,000 population (compared to a minimum recommended level of 1 per 100,000), and community-based mental health services are almost entirely absent.

The economic cost of untreated mental health disorders, through lost productivity, increased physical illness burden, and social welfare costs, is estimated at several percentage points of GDP annually. The investment required to build a basic community mental health system (which is the modality that health economics research consistently identifies as both the most cost-effective and most equitable approach) is modest relative to these costs: a network of trained community health workers, basic psychotropic medicines, and referral pathways to district-level facilities could reach millions of sufferers at a cost of perhaps Tk 1,000 to 2,000 crore annually.

A new principle synthesizing the public health budget analysis is the Principle of Preventive Fiscal Priority, which holds that within the health budget, public resources should be allocated preferentially to preventive, primary, and community-level services rather than tertiary curative care, because the fiscal return to prevention (measured as reduced future expenditure on treatment of preventable illness) combined with the equity return (preventive services reaching the most deprived communities that cannot access tertiary care) and the welfare return (healthier

populations) collectively generate a higher Generativity Index than equivalent investment in hospital infrastructure.

44.3 The Education Budget: Learning Crisis, Structural Underfunding, and the Philosophy of Educational Fiscal Justice

Bangladesh's education budget for FY2025-26 stands at approximately Tk 94,714 crore for primary and secondary education plus additional allocations for technical education, higher education, and religious education, collectively representing approximately 1.72 percent of GDP, significantly below the UNESCO benchmark of 4 to 6 percent of GDP that most education economists regard as the minimum for a functional national education system.

The structural allocation within the education budget reflects the same distortions as the health budget: an over-allocation to physical infrastructure (school construction, renovation) relative to instructional quality, an under-allocation to teacher training and professional development, a significant allocation to public universities that predominantly serve upper-income urban students rather than to primary and secondary education where the social returns are highest, and a persistent failure to fund the instructional materials, supplementary reading materials, and assessment systems that make classroom learning effective.

The learning crisis that defines Bangladesh's education sector, as analyzed in Part Three of this textbook, is not primarily a resources crisis (though resources are inadequate) but a pedagogical and management crisis: large investments in enrollment expansion have not produced corresponding investments in learning quality, leaving Bangladesh with near-universal primary enrollment but with millions of children who reach Grade 5 without functional literacy or numeracy. The World Bank's Learning Poverty indicator, which measures the share of 10-year-old children unable to read a simple text with comprehension, stood at approximately 50 to 60 percent for Bangladesh in recent assessments, an extraordinarily high rate for a country at Bangladesh's level of educational investment.

The teacher quality problem is at the heart of this crisis, and its solution has fiscal dimensions that go beyond simply increasing teacher salaries. The political economy of teacher recruitment and posting in Bangladesh, in which teaching positions are distributed through political networks rather than merit-based selection, means that many teachers in the most under-served rural and remote schools are themselves educationally inadequate: they lack subject knowledge, pedagogical skills, and sometimes basic literacy and numeracy competency. Fixing this requires not just more money but institutional reform of teacher selection, placement, and supervision systems that challenges deeply entrenched political interests.

The gender dimension of Bangladesh's education budget is particularly important in the current context. Bangladesh has achieved gender parity in primary and lower secondary enrollment, one of the genuinely remarkable achievements of its development trajectory and the result partly of the Female Secondary Scholarship Program that incentivizes girls' enrollment through direct financial support. But this parity masks persistent quality gaps and early dropout patterns driven by safety concerns, inadequate sanitation facilities for girls, early marriage pressures, and the economic calculation that girls' labor at home has more immediate family value than continued

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schooling. The FY2026-27 budget's attention to this dimension will be a meaningful signal of the interim government's commitment to genuine gender-responsive education policy.

A new doctrine specific to education fiscal policy is the Doctrine of Front-Loaded Educational Investment, which holds that the social returns to educational investment are dramatically higher at the earliest stages of the life cycle (early childhood education, primary schooling, nutritional support for young children), because cognitive development in the first eight years of life is more plastic and more sensitive to environmental inputs than at any later stage, and because disadvantages incurred in early childhood compound multiplicatively through the educational trajectory. Every taka invested in quality early childhood education generates a higher net present value return than the same taka invested in any other educational stage, according to the research of James Heckman and his collaborators.

Bangladesh's budget allocates essentially nothing to early childhood education as a distinct category. The Early Childhood Care and Development (ECCD) budget exists nominally but is chronically under-resourced. Shifting the balance of the education budget toward front-loaded investment in early childhood would generate fiscal returns (higher future productivity and therefore higher future tax revenue) that outperform virtually any other public investment, but it requires sacrifice of the political salience of highly visible secondary school construction projects.

44.4 Social Protection as a Human Right and a Fiscal Investment: The New Welfare Architecture

Bangladesh's social protection system, as analyzed in Parts Three and Four of this textbook, is extensive in program count but inadequate in coverage, benefit levels, targeting efficiency, and administrative integrity. The FY2025-26 budget maintained the existing social protection architecture without fundamental reform, reflecting the fiscal consolidation constraints of the IMF program and the transition period of the interim government.

The case for social protection as a fiscal investment, rather than simply a welfare expenditure, rests on several empirical foundations from the development economics literature. First, cash transfers to low-income households have strong consumption multiplier effects in developing economy contexts, because poor households spend rather than save the transfers, generating local economic activity that produces tax revenue returns partially offsetting the initial fiscal cost. Research by the Transfer Project and others in Sub-Saharan Africa and South Asia estimates local economic multipliers for cash transfer programs of between 1.5 and 2.5, meaning each taka transferred generates 1.5 to 2.5 taka of local economic activity. Second, social protection reduces the human capital destruction that economic shocks inflict on children in poor households: families with social protection coverage are less likely to withdraw children from school during shocks, less likely to reduce food intake in ways that cause stunting, and less likely to foreclose children's future earning potential to meet immediate survival needs. The long-run economic return of preventing this human capital destruction is substantial.

The institutional architecture of social protection that Bangladesh needs, and that the FY2026-27 budget should begin constructing, is a National Social Registry that provides a unified, verified,

and regularly updated database of all socioeconomically vulnerable households in the country, against which eligibility for multiple programs can be assessed without the administrative fragmentation and political manipulation that characterizes the current program-by-program targeting system. The development of such a registry, initiated under the IMF program conditions, is one of the most consequential institutional investments the government can make.

44.5 The Legislature, Budget Oversight, and the Citizen's Right to Know

The legislature's role in budget oversight in Bangladesh has been analyzed in preceding chapters in terms of formal constitutional provisions and political economy constraints. This section addresses a dimension that has received less attention: the philosophical and civic right of ordinary citizens to understand and participate in budget decisions that profoundly affect their lives.

Parliamentary democracy, in its normative theory, requires that citizens be informed enough about fiscal decisions to hold their representatives accountable for them. But this normative requirement is systematically undermined when the budget is presented in technical language that is impenetrable to non-specialists, when the supporting documents that contain the analytical basis for budget decisions are not publicly released, when the budget speech focuses on political messaging rather than honest analysis, and when the audit and oversight reports that reveal how public money was actually spent are published months or years late and attract no public attention.

Bangladesh scores relatively poorly on the Open Budget Survey, which measures the comprehensiveness, timeliness, and accessibility of fiscal information available to the public. Despite improvements in the formal budget documentation since 2012, the gap between the ideal of an informed, participatory public discourse about fiscal choices and the reality of a technocratic, internally-negotiated document briefly presented to a rubber-stamp parliament remains large.

A new principle relevant here is the Principle of Fiscal Democratic Access, which holds that fiscal information must be made available to citizens in forms that are genuinely accessible given the linguistic, educational, and technological contexts of the majority of the population, not merely in forms that satisfy formal transparency requirements for technically sophisticated international evaluators. Fiscal Democratic Access requires not only that budget documents be published online (which serves urban, educated, digitally connected citizens) but that simplified, visual, locally-relevant summaries be distributed at the union parishad level, that community budget discussions be facilitated by local government, and that feedback mechanisms from citizens to budget-makers be genuinely functional.

44.6 Exam Questions: Chapter Forty-Four

Questions for BEcon Examination

Define the Philosophy of Generative Public Spending and the Generativity Index. Rank the following budget items from highest to lowest on a Generativity Index and justify each ranking:

(a) tertiary hospital construction in Dhaka, (b) early childhood education in rural areas, (c) social protection cash transfers to extreme poor households, (d) motorway construction, (e) community mental health worker training. (20 marks)

What is the Public Health Fiscal Credibility Gap? How large is Bangladesh's gap, and what institutional changes would close it? (15 marks)

Explain the Doctrine of Front-Loaded Educational Investment. What would a budget allocation shift consistent with this doctrine look like in practical terms for Bangladesh? (15 marks)

Questions for BSS (Economics) Examination

What is the Principle of Preventive Fiscal Priority? Apply it to a critique of Bangladesh's health budget allocation between primary, secondary, and tertiary care. (15 marks)

Explain the fiscal investment case for social protection spending, drawing on the multiplier evidence from development economics research. What level of social protection spending as a percentage of GDP would be economically justified for Bangladesh? (12 marks)

What is the Principle of Fiscal Democratic Access? How does Bangladesh's current budget communication practice measure against this principle? (10 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive Welfare Fiscal Architecture for Bangladesh for the period 2026-2035, integrating education, health, social protection, and mental health. For each sector, specify the required budget increase, the institutional reforms needed to ensure the money is spent effectively, the measurable outcomes that should be tracked, and the accountability mechanisms that should be established. Estimate the total additional annual fiscal cost and identify the revenue sources that could finance it. (40 marks)

CHAPTER FORTY-FIVE: ADVANCED QUANTITATIVE FISCAL RESEARCH: NEW METHODOLOGIES, DATA SYSTEMS, AND EVIDENCE-BASED BUDGET DESIGN

45.1 A New Definition: Evidence-Anchored Budget Architecture

Evidence-Anchored Budget Architecture is a system of budget design and evaluation in which every significant allocation decision is preceded by a review of the best available empirical evidence on the effectiveness of the proposed expenditure modality, accompanied by an explicit theory of change linking the budget input to the expected welfare outcome, supported by a monitoring and evaluation system capable of testing whether the theory of change holds in practice, and subject to revision when the evidence of program effectiveness diverges from the theory.

This definition distinguishes Evidence-Anchored Budget Architecture from both pure technocratic budget-making (which uses quantitative models but may not engage seriously with the implementation evidence on program effectiveness) and from pure political budget-making (which allocates based on political calculus without systematic engagement with evidence). It also distinguishes it from superficial evidence-based budgeting (which cites evidence to justify decisions already made on other grounds without genuinely allowing evidence to change those decisions).

The gap between an Evidence-Anchored Budget Architecture and Bangladesh's current budget system is substantial. Program evaluations are not routinely conducted for most social sector programs. Impact assessments of ADP projects are conducted ex-post only for a fraction of completed projects, and the findings are rarely fed back into subsequent allocation decisions. The Ministry of Finance does not maintain a systematic database of program effectiveness evidence that could inform budget negotiations.

Building this architecture requires investment in three areas: the data infrastructure (administrative data systems that track program inputs, outputs, and outcomes in real time), the evaluation capacity (a cadre of trained policy economists and program evaluators within government, supplemented by academic partnerships), and the institutional processes (formal requirements that significant budget proposals be accompanied by evidence review documents, and that allocation decisions in repeated programs be subject to periodic effectiveness review).

45.2 Regression Discontinuity Designs in Bangladesh's Fiscal Research

The regression discontinuity (RD) design is among the most credible quasi-experimental methods for evaluating the causal effect of policy programs in contexts where random assignment is infeasible. It exploits the fact that many social programs assign benefits based on a threshold value of a continuous variable (for example, eligibility for social protection below a poverty index score of 25, or eligibility for reduced VAT rate for businesses below a turnover threshold), and that around this threshold, otherwise similar units are assigned to treatment or control conditions essentially at random.

In Bangladesh's fiscal research context, RD designs have been applied to evaluate the impact of the Female Secondary Stipend Program (using the discontinuity in stipend eligibility at the boundary of eligible school grade levels), the rural electrification program (using the discontinuity in electrification timing across village boundaries created by the administrative rollout sequence), and social protection programs (using the poverty score threshold for program eligibility). Each of these applications has generated credible causal evidence on program impacts.

The RD approach, while powerful, has important limitations that researchers must acknowledge. External validity: the estimated effect near the threshold (the local average treatment effect) may not generalize to individuals far from the threshold, who may differ systematically in ways that affect how they respond to the program. Manipulation of the assignment variable: if program beneficiaries or administrators can manipulate the score that determines eligibility, the discontinuity is no longer as-good-as-random and estimates are biased. Spillovers: if treated and

control units interact (for example, if a program changes labor market wages in a village, affecting even non-program households), the comparison is not clean. Bangladesh's fiscal researchers need to be attentive to these limitations in publishing and citing RD evidence.

45.3 Difference-in-Differences Designs in Fiscal Program Evaluation

The difference-in-differences (DiD) design compares the change over time in an outcome variable for units that received a policy change (the treatment group) against the change over time for units that did not (the control group), under the assumption that the two groups would have followed parallel trends in the absence of the policy change.

The parallel trends assumption is the critical identifying assumption of DiD, and it is not testable in the post-treatment period; it must be assessed using pre-treatment data patterns and argued theoretically. Recent advances in DiD methodology, particularly around heterogeneous treatment effects and staggered adoption designs (where different units adopt the policy at different times), have significantly improved the credibility of DiD estimates in the presence of treatment effect heterogeneity.

Bangladesh provides several natural experiments for DiD analysis. The gradual rollout of digital tax filing across different NBR offices provides a staggered adoption DiD framework for estimating the impact of digitization on compliance rates. The phased expansion of the Old Age Allowance to new upazilas over successive budget years provides a staggered adoption design for estimating the impact of the allowance on elderly welfare outcomes. The sequential opening of export processing zones provides a staggered design for estimating the impact of EPZ establishment on local labor market outcomes, wage levels, and industrial composition.

A new principle for applied fiscal research methodology in Bangladesh is the Principle of Credible Identification: the requirement that any empirical claim about the causal impact of a fiscal policy, whether in a research paper, a policy evaluation report, or a budget proposal document, must be accompanied by an explicit identification strategy that justifies why the estimated relationship between the policy and the outcome can be interpreted as causal rather than correlational, with acknowledgment of the specific assumptions required and the conditions under which they might fail.

45.4 Machine Learning in Revenue Forecasting and Compliance Targeting

Machine learning (ML) methods, including random forests, gradient boosting, neural networks, and natural language processing, are increasingly deployed in fiscal contexts in both high-income and developing country tax administrations. The applications fall into three primary categories: revenue forecasting, compliance risk targeting, and fraud detection.

Revenue forecasting using machine learning can improve on traditional econometric time series models by capturing non-linear relationships between economic variables and tax revenues, incorporating high-frequency economic indicators (satellite night-time light data, mobile phone transaction volumes, Google search trends for economic activity) that traditional models miss,

and updating forecasts continuously as new data arrives rather than relying on quarterly or annual model re-estimation.

Compliance risk targeting using machine learning algorithms can analyze the characteristics of taxpayer filing behavior, transaction patterns (from third-party data sharing with banks, customs, and utility providers), and historical audit outcomes to build risk scores that direct audit resources toward the highest-risk cases. This approach, successfully deployed in multiple middle-income country tax administrations including Indonesia and Rwanda, can significantly increase audit yield per officer hour by concentrating enforcement on the cases most likely to yield underpayments.

Bangladesh's NBR has limited current capacity for ML-based revenue administration, but the foundational data infrastructure is being built through iBAS++ and the NBR's digital tax filing expansion. The key requirements for ML deployment are: a sufficient historical dataset of taxpayer returns, audit outcomes, and economic data; institutional privacy frameworks that permit appropriate data use; and technical staff capable of building, validating, and maintaining ML models.

A new concept here is the Digital Revenue Administration Ladder: a staged framework for NBR's technological modernization that moves from (1) basic digitization of tax filing and payment, through (2) automated third-party data matching, through (3) risk-based audit targeting using machine learning, through (4) predictive analytics for non-compliance pattern detection, to (5) real-time invoice matching and automated VAT reconciliation. Bangladesh is currently at Stage 1 to 2 of this ladder; reaching Stage 3 to 4 within the FY2026-27 to FY2029-30 period is a realistic and high-return fiscal investment.

45.5 Fiscal Multiplier Estimation for Bangladesh: New Evidence and New Methods

The fiscal multiplier, defined as the change in GDP resulting from a unit change in government spending or taxation, is among the most contested empirical parameters in macroeconomics, with estimates ranging from well below one to well above two depending on the estimation method, the economic context, and the type of fiscal instrument studied.

Recent advances in fiscal multiplier estimation have addressed several of the identification challenges that plagued earlier work. The use of narrative approaches, pioneered by Valerie Ramey and Christina Romer, which identify exogenous fiscal shocks from historical legislative records rather than from statistical properties of fiscal series, has produced multiplier estimates for the United States that cluster around 1.4 to 1.7 for spending increases in periods of economic slack. The local multiplier literature, which uses cross-regional variation in federal spending to estimate local economic impacts while controlling for aggregate macroeconomic conditions, has produced comparable estimates.

For Bangladesh, the fiscal multiplier is likely to be context-specific and variable across economic conditions and expenditure types. During periods of high output gap (when the economy is significantly below potential, as in the 2024-2025 slowdown), spending multipliers are likely to be higher because there are idle resources that public spending can activate. During boom

periods, multipliers are lower because public spending competes with productive private activities. Investment spending, particularly on infrastructure with high economic rates of return, tends to have higher multipliers than pure transfer payments because it directly augments productive capacity.

A new framework for Bangladesh's fiscal multiplier analysis is the Conditional Multiplier Matrix: a two-dimensional matrix that maps the estimated fiscal multiplier for each major expenditure category (ADP infrastructure, recurrent wages, social protection transfers, health spending, education spending) against each economic cycle phase (recession, recovery, expansion), to guide counter-cyclical fiscal policy by identifying which instruments have the highest multipliers in each phase and thus deserve expansion when fiscal stimulus is warranted.

Research by the CPD and the World Bank's South Asia region suggests that Bangladesh's ADP infrastructure multiplier may be in the range of 1.2 to 1.8 under current conditions, while social protection transfer multipliers may be in the 0.8 to 1.3 range given the high marginal propensity to consume of low-income recipients. These estimates carry significant uncertainty and should be used as planning guidance rather than precise predictions.

45.6 The Epistemics of Budget Analysis: Uncertainty, Honesty, and the Ethics of Fiscal Communication

The epistemology of fiscal analysis, the question of what we can know and how confidently we can claim to know it about fiscal systems, deserves explicit attention in a textbook that has made numerous quantitative claims about Bangladesh's economy, budget, and fiscal future.

Fiscal analysis rests on several types of knowledge that carry different epistemic status. Statistical facts from administrative sources (government expenditure records, NBR revenue collection data) are relatively reliable but subject to classification errors, coverage gaps (particularly for off-budget activities), and revision. Survey-based economic data (household income and expenditure surveys, enterprise surveys) are subject to sampling error, reporting bias, and the gap between survey-measured and actual economic activity. Macroeconomic aggregates (GDP, inflation, the current account) are constructed estimates subject to significant revision as methodology improves and new data becomes available. Causal claims about the effect of policies are only as strong as the identification strategies used to estimate them, which carry their own assumptions and limitations.

A responsible approach to fiscal communication, whether in research publications, budget documents, or policy debates, requires explicit acknowledgment of the uncertainty surrounding key estimates, honest representation of the assumptions required for causal claims, transparency about what is known confidently and what is speculative, and willingness to revise positions in light of new evidence.

A new principle synthesizing this epistemological reflection is the Principle of Fiscal Epistemic Humility: the recognition that fiscal policy is made under conditions of genuine uncertainty that no amount of modeling or data collection can entirely eliminate, and that fiscal communication

must honestly convey this uncertainty rather than projecting false precision in pursuit of political or technocratic authority.

The FY2025-26 budget, in presenting a GDP growth target of 5.5 percent that economists broadly regarded as ambitious given that actual growth in FY2024-25 was 3.97 percent, and in setting a revenue target that NBR subsequently missed by nearly Tk 100,000 crore in its first nine months, offers an illustration of what Fiscal Epistemic Humility requires: not the absence of ambitious targets, but honest presentation of the assumptions and risks underlying them.

45.7 Exam Questions: Chapter Forty-Five

Questions for BEcon Examination

Define Evidence-Anchored Budget Architecture. What are the three main investments required to build it in Bangladesh? Identify a specific budget program in the social sector that would be reformed if its allocation were determined by genuine evidence review. (20 marks)

Explain the regression discontinuity design. Give a specific example from Bangladesh's fiscal policy context where this method has been or could be applied. What are its key limitations? (15 marks)

What is the Digital Revenue Administration Ladder? Where is Bangladesh currently on the ladder and what would Stage 3 implementation require? (12 marks)

Questions for BSS (Economics) Examination

What is the Conditional Multiplier Matrix? Construct a simplified version for Bangladesh's three main expenditure categories and two economic cycle phases, using the multiplier estimates discussed in this chapter. (15 marks)

Explain the Principle of Fiscal Epistemic Humility. Apply it to a critique of the FY2025-26 budget's macroeconomic framework assumptions. (12 marks)

Questions for MSS (Economics) Examination

Critically evaluate the application of machine learning in tax compliance targeting for a developing country revenue administration context like Bangladesh's NBR. What theoretical foundations support this approach? What are the practical prerequisites, ethical risks (including bias in algorithmic enforcement), and implementation challenges? Design a phased implementation roadmap for ML-based compliance targeting at NBR from 2026 to 2030. (35 marks)

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CHAPTER FORTY-SIX: THE DRAFT BUDGET FY2026-27: ARCHITECTURE, REASONING, AND THE PHILOSOPHY OF ACHIEVABLE TRANSFORMATION IN A POST-LDC WORLD

46.1 The Macroeconomic Framework for FY2026-27: Parameters and Uncertainty

As of April 2026, the FY2026-27 budget is being prepared against the following macroeconomic backdrop, synthesized from the most recent data available.

GDP growth in FY2025-26 is tracking toward approximately 4.5 to 5.2 percent, recovering modestly from the 3.97 percent of FY2024-25 but still below the 5.5 percent target in the original budget. The recovery reflects modest improvement in garment export growth as global demand for apparel recovers, some stabilization of the banking sector following the interim government's initial NPL resolution measures, and the gradual easing of inflation. Inflation, which peaked above 11 percent in mid-2023, has moderated to approximately 8 to 9 percent by early 2026 but remains stubbornly above the Bangladesh Bank's 6 to 7 percent medium-term target.

Foreign exchange reserves have stabilized after the dramatic fall of 2021 to 2023, with net international reserves in the range of USD 16 to 20 billion by early 2026. The improvement reflects higher export earnings (garment exports approached USD 45 to 47 billion in FY2025-26), continued strong remittance inflows (approximately USD 24 to 26 billion), and the ongoing IMF program that provides the confidence signal needed to maintain orderly access to external financing.

Revenue collection by NBR in FY2025-26 faced its largest-ever annual shortfall in the first three quarters, running approximately Tk 100,000 crore behind the annual target, suggesting that the full-year revenue collection of approximately Tk 380,000 to 400,000 crore against a target of Tk 499,000 crore. This shortfall has forced the government to increase domestic bank borrowing well above plan, with borrowing from the banking system reaching Tk 112,761 crore against the annual target in approximately the first nine months of the fiscal year.

These conditions define the fiscal space for FY2026-27. Initial Finance Division projections indicate a budget size of approximately Tk 930,000 crore, with a deficit of approximately Tk 235,000 crore or around 3.4 to 3.7 percent of projected GDP. The GDP base for FY2026-27 planning purposes is estimated at approximately Tk 6,870,707 crore at current prices.

The Iran War uncertainty introduces a systematic downside risk to this framework that deserves explicit acknowledgment in the budget documents: a sustained energy price shock could increase the fuel subsidy requirement by Tk 25,000 to 50,000 crore relative to baseline, compress private consumption and investment, reduce GDP growth toward the lower end of the 5.5 to 6 percent target range, and reduce customs revenue from import compression.

46.2 Revenue Architecture for FY2026-27: Ambition with Realism

The FY2026-27 revenue target, projected at approximately Tk 550,000 crore with approximately Tk 530,000 crore from NBR, represents an increase of approximately 10 percent above the

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FY2025-26 revised target and approximately 40 percent above the likely actual collection in FY2025-26. This is ambitious, but the gap between the ambitious target and the realistic projection creates exactly the kind of fiscal authenticity problem that this textbook has analyzed at length.

A more realistic and credibly achievable revenue target for FY2026-27, based on the NBR's demonstrated collection capacity and the most favorable realistic assumptions about the pace of revenue reforms, is Tk 460,000 to 480,000 crore. Setting the official target at this level would be uncomfortable politically (it implies acknowledging the structural severity of the revenue gap) but would produce a more honest fiscal framework and reduce the year-end pressure to inflate the deficit through excessive domestic borrowing.

The revenue reform measures that have the highest probability of materializing genuine revenue increases in FY2026-27 include: completion of the NBR digitization program for VAT return filing and cross-matching, estimated to yield additional revenue of Tk 10,000 to 20,000 crore through reduced VAT leakage; strengthening of the Large Taxpayer Unit's audit capacity with additional specialist staff, estimated to yield Tk 8,000 to 15,000 crore in additional corporate income tax; expansion of the tax net to include the estimated 5 to 8 million individuals currently above the taxable income threshold who are not registered with NBR, achievable through third-party data matching with the National Identification database, estimated to yield Tk 5,000 to 10,000 crore; and reform of property transfer taxes to better reflect market values rather than government-assessed circle rates that are systematically below actual transaction values, estimated to yield Tk 3,000 to 7,000 crore.

46.3 Expenditure Framework for FY2026-27: Priorities and Trade-Offs

The expenditure framework for FY2026-27 faces several fundamental trade-offs that cannot be resolved by technical budget-making alone; they require explicit political choices about priorities.

The trade-off between debt service and development investment is the most binding. Interest payments in FY2025-26 are already Tk 122,000 crore, approximately 22 percent of total revenue budget. With the financing costs increasing as concessional debt is gradually replaced by more expensive instruments, the interest payment bill for FY2026-27 is projected to increase to Tk 140,000 to 150,000 crore, an increase of Tk 18,000 to 28,000 crore that must be funded from an already stretched revenue base. Every taka that goes to interest payments is a taka that cannot go to health, education, social protection, or development investment. The debt service preemption of the budget is not a budgetary choice but a contractual obligation; it can be addressed only through revenue growth and, over the medium term, active debt restructuring negotiations with bilateral creditors to extend maturities and reduce interest rates.

The trade-off between ADP size and ADP quality is equally important. The FY2025-26 budget reduced the ADP to Tk 230,000 crore; projections suggest the FY2026-27 ADP will increase modestly to approximately Tk 253,000 crore. The critical question is not the aggregate size but the composition and implementation capacity. An ADP of Tk 200,000 crore with 90 percent implementation and rigorous project quality standards would produce better fiscal outcomes than

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an ADP of Tk 253,000 crore with 70 percent implementation and politically motivated project inclusion. The government should resist the political pressure to inflate the ADP aggregate and instead invest in the project management, procurement reform, and implementation monitoring systems that improve implementation quality.

The trade-off between social sector investment and fiscal consolidation is the one where the IMF program creates the most acute tension. The conditionalities of the program require deficit reduction, which creates pressure to limit the growth of recurrent social expenditure. But health and education spending that is already at critically inadequate levels cannot bear further consolidation without imposing severe human capital costs. The resolution of this trade-off requires finding revenue measures adequate to fund the necessary social expenditure increases while still achieving the deficit reduction the program requires, through revenue growth rather than expenditure cuts in high-priority areas.

A new doctrine for the FY2026-27 budget is the Doctrine of Non-Negotiable Human Capital, which holds that expenditure on primary education quality, preventive public health, early childhood development, and social protection for the extreme poor is non-negotiable in fiscal consolidation, because cutting these items imposes irreversible human capital losses that compound over decades and ultimately undermine the revenue base itself, while the fiscal savings from cutting them are small relative to the social cost of the cuts.

46.4 The Draft Budget FY2026-27: A Proposed Framework

Drawing together the preceding analysis, a proposed draft framework for the FY2026-27 national budget of Bangladesh is presented here as a planning framework and analytical exercise. The figures are estimates and projections based on the best available data as of early 2026; they should not be read as official government projections.

Total budget size: Tk 910,000 crore (a modest reduction from the Tk 930,000 crore initial projection, reflecting a choice to constrain the budget to a more achievable revenue-financed level rather than expanding domestic borrowing).

Revenue target (NBR): Tk 465,000 crore (a realistic but challenging increase of approximately 16 percent above estimated actual FY2025-26 collection, achievable with the specific revenue reforms outlined above).

Revenue target (non-NBR): Tk 70,000 crore.

Total revenue: Tk 535,000 crore.

Deficit: Tk 375,000 crore or approximately 3.5 percent of projected GDP (a modest reduction from 3.6 percent in FY2025-26, consistent with the IMF program's fiscal consolidation trajectory).

Deficit financing: Tk 130,000 crore from domestic bank borrowing (a significant reduction from the FY2025-26 outturn of over Tk 112,000 crore in nine months, requiring genuine revenue

improvement to achieve); Tk 110,000 crore from external sources (multilateral and bilateral, at manageable terms); Tk 135,000 crore from non-bank domestic sources (savings certificates and government securities held by non-bank investors).

ADP: Tk 245,000 crore (a modest increase of Tk 15,000 crore from FY2025-26, concentrated on completing ongoing projects with high economic returns rather than initiating new projects, with a formal cap on new project approvals during the year).

Key sectoral allocations within the proposed framework: education allocation increased to Tk 105,000 crore (targeting approximately 2.0 percent of GDP, still below UNESCO benchmarks but a meaningful step toward adequacy); health allocation increased to Tk 50,000 crore (targeting approximately 0.95 percent of GDP, with the additional funding directed entirely to primary and community health care and preventive services); social protection allocation increased to Tk 130,000 crore (increasing per-capita benefit levels of the three largest programs to reflect inflation erosion, and initiating the National Social Registry pilot across five divisions); interest payments Tk 148,000 crore (reflecting the increasing debt service burden); wages and operational expenditure Tk 220,000 crore; infrastructure and other Tk 80,000 crore.

This framework is tight. Achieving it requires the revenue reforms to materialize, the ADP implementation rate to improve from its historical average of 75 to 80 percent to at least 85 percent, and the fiscal discipline to resist supplementary budget additions of politically motivated items. It represents not the best budget Bangladesh could construct in a world of unlimited resources but the best budget Bangladesh can construct within its actual constraints while meeting its most important human capital obligations.

46.5 Why the FY2026-27 Budget, as Proposed, Is Reasonable

The reasonableness of any budget is assessed against the dual standard of fiscal sustainability and social adequacy. A budget is not reasonable if it is fiscally unsustainable (generating debt dynamics that lead toward crisis) and it is not reasonable if it is socially inadequate (failing to meet the basic welfare obligations of the state to its citizens). The art of responsible budgeting in a constrained environment is finding the path that satisfies both standards simultaneously.

The proposed FY2026-27 framework is reasonable on the fiscal sustainability dimension: a deficit of 3.5 percent of GDP, with the specified financing mix, is consistent with debt stabilization at approximately 36 to 38 percent of GDP under baseline growth assumptions, within the range the IMF's DSA assessment identifies as manageable. The revenue target, while ambitious, is achievable with credible reform implementation. The ADP ceiling prevents the project loading dynamics that have historically contributed to implementation failure.

The proposed framework is reasonable on the social adequacy dimension: the increases in health and education allocations, while below eventual targets, represent meaningful improvements in the right direction, particularly the refocusing of the health increment on primary care. The social protection increase, while still leaving per-capita benefits inadequate by international standards, prevents further real value erosion and begins the registry infrastructure that will enable better targeting.

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The framework is imperfect and will require adaptation as the Iran War situation evolves, as the NBR's actual revenue performance becomes clear in the first quarter, and as the LDC deferral decision becomes known. A reasonable budget, in the Philosophy of Achievable Reasonableness first articulated in Part Two of this textbook, is not one that pretends conditions are better than they are; it is one that honestly confronts constraints, makes principled choices about priorities within those constraints, and maintains the institutional integrity that allows mid-course corrections when conditions change.

46.6 Exam Questions: Chapter Forty-Six

Questions for BEcon Examination

Present and evaluate the proposed FY2026-27 budget framework in this chapter. Is it fiscally sustainable by the IMF/WB DSA criteria? Is it socially adequate by the standards of the Principle of Non-Negotiable Human Capital? Identify the two most important risks to its successful implementation. (20 marks)

What is the Doctrine of Non-Negotiable Human Capital? Apply it to evaluate the proposed FY2026-27 education and health allocations in the draft framework. Are they consistent with the doctrine? (15 marks)

Questions for BSS (Economics) Examination

How should the FY2026-27 budget handle the Iran War uncertainty? Design a contingency mechanism within the budget framework that preserves fiscal stability while providing the flexibility to respond to an adverse energy price scenario. (15 marks)

Explain the trade-off between ADP size and ADP quality. What institutional changes within the FY2026-27 budget cycle could improve ADP implementation quality rather than simply increasing ADP size? (12 marks)

Questions for MSS (Economics) Examination

Critically evaluate the proposed FY2026-27 budget framework in this chapter against the standards of: (a) fiscal sustainability, (b) social adequacy, (c) the Principle of Fiscal Authenticity, and (d) the Philosophy of Achievable Reasonableness. What modifications would you recommend, and what would be the fiscal cost of those modifications? How would you finance them? (35 marks)

CHAPTER FORTY-SEVEN: THE FUTURE FISCAL STATE OF BANGLADESH: PATHWAYS, SCENARIOS, AND THE PHILOSOPHY OF FISCAL BECOMING

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47.1 A New Philosophy: The Philosophy of Fiscal Becoming

The Philosophy of Fiscal Becoming holds that the fiscal state of a developing economy is never a fixed condition to be managed but a perpetual process of institutional, political, and economic evolution, in which the choices made today regarding revenue systems, expenditure priorities, debt management, and governance institutions do not simply reproduce a given level of fiscal performance but shape the trajectory along which the fiscal state develops, and that the highest responsibility of fiscal policy-making is not to optimize within current constraints but to deliberately move the fiscal system toward a higher-capacity, more equitable, and more authentic resting point in the medium term.

The Philosophy of Fiscal Becoming is opposed to two failure modes in budget thinking. The first is fiscal fatalism: the acceptance that Bangladesh's low revenue ratios, its ADP implementation failures, its banking sector vulnerabilities, and its social sector underfunding are structural features of its developmental stage that cannot be significantly altered within the realistic planning horizon. This is empirically false: Bangladesh's fiscal performance has evolved significantly over fifty years, and international comparators demonstrate that fiscal transformation is possible within a decade when political commitment, institutional reform, and favorable economic conditions align.

The second failure mode is fiscal utopianism: the belief that fiscal transformation can be willed into existence by ambitious target-setting, regardless of institutional capacity, political economy constraints, and the genuine difficulty of collective action problems in fiscal governance. Utopianism produces the cycle of ambitious budget promises and disappointing fiscal outturns that has characterized Bangladesh's budget history for decades and erodes the credibility that is itself a fiscal asset.

Fiscal Becoming, as a philosophy, charts the path between these extremes: honest about constraints, ambitious about trajectory, focused on the institutional foundations that sustain fiscal improvement across multiple political cycles rather than on the particular outcomes of any single budget year.

47.2 Bangladesh's Fiscal Future: Three Scenarios

Scenario One: The Reform Pathway (probability approximately 35 percent)

In this scenario, the interim government or its successor achieves sufficient political stability and institutional momentum to implement the structural fiscal reforms required for genuine transformation: NBR digitization and compliance improvement that steadily closes the tax gap and moves the tax-to-GDP ratio toward 12 percent by 2033; successful EU GSP+ negotiation that preserves Bangladesh's preferential market access post-LDC graduation and prevents the worst-case trade preference erosion; banking sector stabilization through NPL resolution, state bank governance reform, and recapitalization financed through combination of government fiscal resources and private equity; climate finance mobilization that funds adaptation investment without fiscal stress; and human capital investment in health and education that builds the productivity foundations of sustained higher growth.

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In this scenario, Bangladesh's fiscal performance trajectory resembles that of Vietnam in the 2005 to 2015 decade: sustained tax-to-GDP improvement, high-quality infrastructure investment, strong export diversification, and gradually improving public services. GDP growth averages 6.5 to 7 percent from 2027 onward. The fiscal position is sustainable and improving. The social contract is strengthened by demonstrable improvement in public service quality.

Scenario Two: The Muddling-Through Pathway (probability approximately 45 percent)

In this scenario, Bangladesh achieves incremental fiscal improvement without transformational change: revenue collection improves modestly but the tax-to-GDP ratio remains below 9 percent through 2030; the banking sector stabilizes partially but NPLs remain elevated and state banks continue to require periodic government support; climate adaptation investment lags but climate disasters do not impose catastrophic fiscal costs in the immediate period; social sector spending increases modestly but coverage and quality remain inadequate; GDP growth averages 5 to 5.5 percent; fiscal deficits remain in the 3.5 to 4.5 percent range; debt-to-GDP ratio stabilizes around 38 to 42 percent.

This is the scenario most consistent with Bangladesh's historical fiscal trajectory: persistent structural weakness combined with sufficient resilience to avoid crisis. It preserves the option value of the reform pathway (the institutional foundations for better governance are maintained even if not fully utilized) while generating welfare outcomes that are disappointing relative to Bangladesh's potential.

Scenario Three: The Fiscal Stress Pathway (probability approximately 20 percent)

In this scenario, a combination of adverse shocks, including the full-impact Iran War energy price shock, failure to secure EU GSP+ post-graduation, a major climate event (cyclone or flood) imposing exceptional fiscal costs, and political instability that disrupts the reform program, combines to produce fiscal deterioration. Revenue shortfalls persist. The deficit expands beyond IMF program targets, triggering a pause in IMF disbursements. Foreign exchange reserves come under renewed pressure. Debt service costs as a share of revenue increase toward 35 to 40 percent. GDP growth falls to 3.5 to 4 percent. Social protection coverage falls as fiscal consolidation is imposed in the wrong places.

This scenario does not produce fiscal collapse; Bangladesh has demonstrated remarkable resilience against severe shocks over fifty years. But it does impose severe welfare costs on the poorest segments of the population, delays the human capital investments that are the foundation of long-run development, and increases the structural fiscal vulnerability that makes future shocks more damaging.

The appropriate policy response to this scenario uncertainty is to design the FY2026-27 budget and the medium-term fiscal framework with explicit attention to building fiscal resilience: maintaining reserve adequacy, avoiding commitments that lock in irreversible expenditure growth, preserving flexibility for counter-cyclical responses, and investing in the revenue institutions and social protection infrastructure that make the fiscal state more robust to adverse shocks.

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47.3 The Institutional Agenda for Bangladesh's Fiscal Future

The theoretical frameworks, empirical analyses, and philosophical commitments developed across this textbook converge on a core institutional agenda for Bangladesh's fiscal state in the 2026-2035 period.

The revenue institution agenda: complete the NBR's digitization program within three years; implement transfer pricing enforcement with specialist staff; expand the direct taxpayer base through NID-linked registration drives; reform property assessment to reflect market values; introduce a minimum corporate tax to prevent artificial tax base erosion; begin pilot implementation of carbon pricing in the industrial sector; and redesign investment incentives to comply with Pillar Two requirements.

The expenditure institution agenda: introduce reference class forecasting in project appraisal to reduce optimism bias in cost estimates; establish a formal fiscal council with mandate to independently assess budget assumptions and publish alternative fiscal scenarios; complete the National Social Registry and use it to rationalize and expand social protection programs; require evidence reviews for all major social sector budget programs; and introduce automatic inflation indexation for social protection benefit values.

The debt management agenda: diversify the creditor portfolio away from concentration in any single bilateral or commercial creditor; begin negotiations with Japan for concessional loan restructuring to extend maturities as infrastructure loans exit grace periods; develop a domestic government securities market that can absorb a greater share of deficit financing at lower cost; and publish a public debt sustainability report annually alongside the budget documents.

The fiscal transparency agenda: achieve OBS score of at least 70 (from the current approximately 50 to 55 range) within five years through full implementation of the Open Budget survey requirements; establish a parliamentary budget office with analytical independence; expand the gender budget report to incorporate the Principle of Structural Gender Fiscal Equity; and begin regular citizen-level budget summary dissemination at the upazila level.

47.4 A New Doctrine: The Doctrine of Institutional Fiscal Patience

The Doctrine of Institutional Fiscal Patience holds that genuine fiscal transformation cannot be achieved within a single budget cycle or even a single government's term; it requires sustained institutional investment across multiple political cycles, building the organizational capacity, the informational infrastructure, and the accountability relationships that make the fiscal state progressively more capable of converting economic activity into public value.

This doctrine has two corollaries. First, the reforms with the highest long-run return are often the least politically salient in any given budget year: investing in tax administration technology, building the statistical capacity needed for evidence-based budgeting, training fiscal economists in government, establishing a parliamentary budget office, and creating a social protection registry are all institutionally transformative but generate no ribbon-cuttings. A fiscally patient

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government prioritizes these invisible investments over their low institutional-return but high political-visibility alternatives.

Second, the appropriate metric for evaluating a government's fiscal performance is not any single year's revenue collection or deficit ratio but the trajectory of institutional fiscal capacity over the full government period: has the tax-to-GDP ratio moved in the right direction? Has ADP implementation quality improved? Has social protection coverage expanded and become less politically manipulable? Has fiscal transparency increased? These trajectory measures capture what matters for long-run fiscal development far better than any single year's budget arithmetic.

47.5 The Global Context and Bangladesh's Fiscal Sovereignty in 2035

What might Bangladesh's fiscal state look like in 2035, in the most probable scenario? Several features seem likely to characterize it, regardless of which specific pathway is followed.

The tax-to-GDP ratio will be higher, almost certainly, than its current 6.6 to 7.4 percent level. The combination of digitization-driven compliance improvement, LDC graduation pressure to expand the domestic revenue base, IMF program conditionalities, and the gradual formalization of the economy will push revenue upward. Whether it reaches 10 percent or 12 percent depends on the pace and quality of institutional reform.

The debt service burden will remain significant. The repayment cliff from infrastructure loans of the 2015 to 2022 period will dominate the fiscal landscape from approximately 2027 to 2033, with interest payments as a share of revenue likely to peak in that window before declining as maturities extend. Managing this cliff without severe expenditure compression in the social sectors is the most immediate structural fiscal challenge of the coming decade.

The composition of development financing will have diversified, with a larger share coming from domestic capital markets and a smaller share from external bilateral sources, as Bangladesh's income level rises above the thresholds for the most concessional lending tiers and as the domestic financial system develops the capacity to intermediate longer-term financing.

The social contract between the Bangladeshi state and its people will be in a meaningful process of renegotiation. The July 2024 uprising represented, among other things, a demand for a more equitable distribution of the gains from Bangladesh's growth and for a more accountable and transparent state. The fiscal response to these demands, in terms of genuine improvement in public service quality, in social protection coverage, and in the accountability of public resource use, will determine whether Bangladesh's next chapter is one of deepening democracy and social contract renewal or of political volatility and continued elite capture of public resources.

Bangladesh has, across fifty years of nationhood, demonstrated a capacity for transformation that confounds both its admirers and its detractors. It has survived crises that would have broken more fragile states. It has built industries and institutions that its founders could not have imagined. The question is whether the next generation of fiscal architects, including the students reading this textbook, will bring to the task of fiscal transformation the combination of

intellectual rigor, institutional patience, philosophical clarity, and democratic accountability that the moment demands.

The evidence of fiscal science and the history of successful fiscal development both suggest the same answer: it is possible. The question is whether it will be chosen.

47.6 Exam Questions: Chapter Forty-Seven

Questions for BEcon Examination

Explain the Philosophy of Fiscal Becoming. How does it differ from fiscal fatalism and fiscal utopianism? Which of these three frameworks most accurately describes the dominant approach to fiscal management in Bangladesh over the past decade? (20 marks)

Describe the three scenarios for Bangladesh's fiscal future presented in this chapter. What are the key policy choices that determine which scenario materializes, and what is the role of the FY2026-27 budget in shaping the trajectory? (20 marks)

What is the Doctrine of Institutional Fiscal Patience? What are its two corollaries and how should they guide budget-making in Bangladesh? (12 marks)

Questions for BSS (Economics) Examination

Construct a five-year institutional fiscal reform roadmap for Bangladesh (2026 to 2031), drawing on the institutional agenda presented in this chapter. Prioritize the three most important reforms and justify your prioritization. (20 marks)

What does Bangladesh's fiscal state likely look like in 2035 under the most probable scenario described in this chapter? What are the biggest risks to achieving this scenario, and what fiscal policy instruments would most effectively mitigate those risks? (15 marks)

Questions for MSS (Economics) Examination

Apply the Philosophy of Fiscal Becoming to a comprehensive critical assessment of Bangladesh's fiscal development over the full 1971 to 2026 period. Has Bangladesh been on a genuine trajectory of fiscal becoming, or has its fiscal evolution been largely accidental, driven by external forces rather than deliberate institutional construction? Using the analytical frameworks developed throughout this textbook, identify the most important deliberate institutional choices that have shaped Bangladesh's fiscal trajectory for better or worse, and project what a trajectory genuinely guided by the Philosophy of Fiscal Becoming would look like for 2026 to 2041. (40 marks)

PART SIX: CONCLUDING SYNTHESIS

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The ten chapters of Part Six have moved from the specific urgency of the post-LDC fiscal transition through the theoretical frontiers of complexity economics, post-Keynesian thought, and behavioral public finance, across the geopolitical landscape of global fiscal integration, into the deepest questions of what fiscal citizenship, fiscal democracy, and fiscal becoming mean for a country at Bangladesh's stage of development.

Several threads run through all ten chapters and deserve explicit naming as this part concludes.

The first thread is the insistence on institutional depth over formal compliance. Bangladesh's fiscal challenges are not primarily technical; they are institutional. The revenue gap reflects not the absence of taxable activity but the absence of the institutional capacity to tax it. The ADP implementation gap reflects not the absence of investment ambition but the absence of project management and accountability institutions. The social contract gap reflects not the absence of welfare commitment but the absence of service delivery institutions that convert fiscal inputs into welfare outputs. Building these institutions is the work of a generation, and it cannot be accelerated by ambitious target-setting alone.

The second thread is the global embeddedness of Bangladesh's fiscal sovereignty. In an era of OECD minimum taxes, Carbon Border Adjustment Mechanisms, IMF program conditionalities, LDC graduation, and the geopolitics of the BRI and the Iran War, Bangladesh's fiscal choices are made not in sovereign isolation but at the intersection of multiple international systems with their own logics and constraints. Navigating this complexity requires sophisticated Geoeconomic Fiscal Positioning, not naive nationalism or blind deference to external prescriptions.

The third thread is the non-negotiability of human capital investment. Whatever the constraints on the fiscal framework, whatever the demands of debt service, and whatever the pressures of fiscal consolidation, the investment in primary education quality, preventive health, early childhood development, and social protection for the extreme poor cannot be deferred without compounding costs that eventually dwarf the savings. The Philosophy of Generative Public Spending and the Doctrine of Non-Negotiable Human Capital are not soft sentimentalities; they are hard-headed fiscal rationalizations of the investments with the highest social and ultimately fiscal return.

The fourth thread is hope, grounded not in optimism about the ease of the path but in respect for Bangladesh's demonstrated capacity for transformation. A country that has navigated the devastation of 1974, the instability of 1975 to 1990, the crisis of 2022 to 2024, and the extraordinary political transformation of 2024 while building a garment industry, reducing poverty by two-thirds, and achieving gender parity in primary education is a country with genuine transformative capacity. The task of fiscal development is not to transplant someone else's institutions into Bangladesh but to build, from Bangladesh's own history, capacities, and commitments, the fiscal state that its people deserve.

That fiscal state is not yet built. But it is being built, chapter by chapter, budget by budget, institution by institution, student by student.

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APPENDIX TO PART SIX: GLOSSARY OF NEW TERMS AND CONCEPTS

The following new terms and concepts have been introduced in Part Six of this textbook. Each represents a conceptually distinct contribution to the understanding of fiscal systems and Bangladesh's budget, grounded in the latest research and presented in language that captures the specific institutional, historical, and economic realities of the twenty-first century.

Post-Preference Fiscal Shock: The compound fiscal effect on a graduating economy from the simultaneous withdrawal of multiple trade, financing, and policy privileges embedded in LDC status, whose combined impact exceeds the sum of individual component losses due to multiplicative vulnerability across institutional domains.

Principle of Graduation Fiscal Neutrality: The standard requiring that a graduating economy generate sufficient domestic revenue growth, financing diversification, and expenditure efficiency gains to offset the full value of lost LDC privileges without welfare-reducing austerity in the transition period.

Fiscal Export Ladder: A framework describing the stages through which export competitiveness must be built post-graduation, with specific budget interventions calibrated to the institutional failures at each stage.

Doctrine of Accumulated Fiscal Potential: The recognition that an economy's actual revenue collection represents only a fraction of its latent taxable capacity, and that the difference is a stock of untapped fiscal capacity accessible through institutional reform.

Fiscal Option Value of Deferral: The present discounted value of the reduction in fiscal adjustment costs enabled by orderly phased transition compared to forced compressed transition in the LDC graduation context.

Doctrine of Threshold Inadequacy: The principle that binary LDC graduation criteria cannot fully capture the quality of structural transformation distinguishing sustainable from fragile development trajectories, necessitating supplementary resilience assessment.

Fiscal System Complexity: The degree to which a fiscal system exhibits non-linearity, path dependence, emergent behavior, and adaptive response making aggregate behavior unpredictable from equilibrium-assuming models.

Principle of Adaptive Fiscal Governance: The principle that fiscal management in complex systems requires continuous outcome monitoring, rapid instrument adjustment, resilience maintenance, and local adaptive capacity rather than standardized top-down blueprints.

Doctrine of Functional Fiscal Balance: The principle that the appropriate fiscal deficit is defined by functional requirements of demand, investment, external balance, and distributional equity rather than by any numerical rule or GDP ratio.

Principle of Fiscal Credibility Anchoring: The recognition that monetary policy alone cannot durably control inflation where fiscal expectations are unsettled, and that a credible transparent medium-term fiscal consolidation plan is the most effective anti-inflation policy.

Behavioral Fiscal Architecture: The intentional design of fiscal institutions, processes, and communications to leverage behavioral tendencies toward desirable fiscal outcomes.

Philosophy of Institutional Fiscal Realism: The recognition that fiscal policy analysis must begin with honest assessment of the institutional matrix shaping actual behavior rather than assuming rational benevolent agents implementing designed rules.

Fiscal Citizenship Quotient: A composite measure of a society's degree of internalized fiscal citizenship norms, including willingness to pay taxes honestly, belief in responsible public resource use, and shared ownership of public institutions.

Philosophy of Reciprocal Fiscal Trust: The principle that tax compliance is fundamentally a mutual trust relationship conditioned on the state's demonstrated reliability in service delivery and institutional fairness.

Geoeconomic Fiscal Positioning: The strategic management of a sovereign state's external financing mix to maximize fiscal autonomy, minimize conditionality costs, and hedge concentration risk across multiple financing relationships.

Doctrine of Creditor Portfolio Diversification: The principle that debt sustainability is determined not only by aggregate ratios but by the diversification of the creditor portfolio, with high concentration in any single creditor creating unmanageable strategic exposure.

Fiscal Scenario Resilience: The degree to which a fiscal framework remains functionally solvent across a defined range of adverse scenarios without requiring extraordinary measures.

Philosophy of Transparent Constraint Acknowledgment: The principle that government fiscal credibility is best served by honest acknowledgment of binding constraints combined with clear articulation of sovereign priorities within those constraints.

Climate Fiscal Metabolism: The rate at which a country's fiscal system converts environmental vulnerability and climate risk into productive investment reaching the most exposed communities and infrastructure.

Principle of Intertemporal Climate Fiscal Responsibility: The principle that fiscal decisions creating long-run climate-attributable fiscal liabilities must be evaluated on their contribution to or reduction of future fiscal risk, not only on near-term arithmetic.

Principle of Fiscal Sovereignty in Climate Pricing: The principle that a country without a domestic carbon price cedes carbon pricing revenue to import-carbon-adjusting countries, making revenue-neutral domestic carbon pricing fiscally superior to absorbing external carbon adjustments.

Green Fiscal Leverage Ratio: The ratio of total climate investment mobilized per unit of public green fiscal expenditure or green bond proceeds, measuring the catalytic effectiveness of public fiscal instruments in attracting private climate finance.

Philosophy of Generative Public Spending: The principle that the highest form of public expenditure simultaneously addresses immediate welfare needs, builds future capabilities, reduces future expenditure requirements, and strengthens the social contract.

Generativity Index: A measure of the number of distinct, mutually reinforcing welfare returns generated per unit of public expenditure, used to prioritize high-generativity spending under fiscal constraint.

Public Health Fiscal Credibility Gap: The distance between a country's stated commitment to universal health coverage in policy documents and its actual resource allocation in annual budgets.

Principle of Preventive Fiscal Priority: The principle that within the health budget, resources should be allocated preferentially to preventive, primary, and community-level services because these generate the highest combined fiscal, equity, and welfare returns.

Doctrine of Front-Loaded Educational Investment: The principle that educational returns are highest at the earliest life-cycle stages, justifying priority allocation to early childhood education and primary quality over secondary and tertiary expansion.

Principle of Fiscal Democratic Access: The principle that fiscal information must be made available in forms genuinely accessible to the full population, not merely in forms satisfying formal transparency requirements for technical evaluators.

Evidence-Anchored Budget Architecture: A budget design system in which every significant allocation is preceded by empirical evidence review, accompanied by a theory of change, supported by monitoring capacity, and subject to revision when evidence contradicts theory.

Principle of Credible Identification: The requirement that empirical claims about policy impact be accompanied by explicit identification strategies justifying causal rather than correlational interpretation.

Digital Revenue Administration Ladder: A staged framework from basic digitization through automated data matching, ML-based compliance targeting, predictive analytics, and real-time invoice matching, describing the technological modernization pathway for revenue administration.

Conditional Multiplier Matrix: A two-dimensional framework mapping fiscal multiplier estimates for each expenditure category against each economic cycle phase, guiding counter-cyclical instrument selection.

Principle of Fiscal Epistemic Humility: The recognition that fiscal policy is made under irreducible uncertainty, requiring honest representation of this uncertainty rather than false precision in pursuit of authority.

Doctrine of Non-Negotiable Human Capital: The principle that expenditure on primary education quality, preventive health, early childhood development, and social protection for the extreme poor is non-negotiable in fiscal consolidation because the human capital losses from cutting these items compound irreversibly.

Philosophy of Fiscal Becoming: The recognition that the fiscal state is a perpetual institutional and economic evolution, and that fiscal policy-making's highest responsibility is to deliberately move the fiscal system toward a higher-capacity, more equitable, and more authentic condition.

Doctrine of Institutional Fiscal Patience: The principle that genuine fiscal transformation requires sustained institutional investment across multiple political cycles, prioritizing invisible capacity-building investments over politically salient but institutionally shallow alternatives.

PART SEVEN: INTERNATIONAL CRISIS ASSESSMENT, COMPARATIVE FISCAL SYSTEMS, AND BANGLADESH IN THE GLOBAL FISCAL ORDER

Preface to Part Seven

Part Seven of this textbook occupies a distinctive intellectual position within the overall architecture. Parts One through Six built the foundations, the history, the constitutional framework, the budget methodology, the modeling techniques, and the complex theories of public expenditure and revenue that together constitute the technical core of fiscal analysis. Part Seven moves outward. It situates Bangladesh's fiscal system within the turbulent, multi-polar, and crisis-prone global order of the mid-2020s and asks what that global order demands of a nation's budget-makers, how other countries have organized their fiscal systems in ways that Bangladesh can learn from, and what the compound pressures of international crises, LDC graduation, energy market volatility, climate emergency, and digital transformation mean for the specific technical and philosophical choices Bangladesh must make in its budgets for the years immediately ahead.

The global fiscal environment of 2025 and 2026 is among the most complex since the 1970s. The Iran-related conflict has disrupted energy markets. The structural fracture in the global trading system, accelerated by United States tariff escalation and the strategic use of trade policy as an instrument of geopolitical competition, has altered the landscape within which export-dependent developing economies like Bangladesh must build their fiscal futures. The post-pandemic surge in sovereign debt across the developing world, combined with rising interest rates in advanced economies, has created debt sustainability pressures of a kind not seen since the Latin American debt crisis of the 1980s. And beneath all of this, the slow but relentless fiscal arithmetic of climate change continues to add to the actuarial liabilities of governments everywhere, particularly in vulnerable coastal and deltaic countries like Bangladesh.

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Part Seven is organized around nine chapters. Chapter Forty-Eight constructs a new analytical framework for understanding international crisis assessment and its translation into budget responses. Chapter Forty-Nine surveys comparative budget systems across major economies, extracting lessons relevant to Bangladesh's own institutional development. Chapter Fifty examines the Middle East conflict and energy crisis as a fiscal challenge of immediate and urgent proportions. Chapter Fifty-One addresses pandemic finance, global health architecture, and the design of public health budgets. Chapter Fifty-Two analyzes LDC graduation as a compound fiscal crisis, examining how the loss of trade preferences, concessional financing, and policy space affects budget design. Chapter Fifty-Three explores climate finance, environmental taxation, and the construction of budget resilience in the face of accelerating ecological disruption. Chapter Fifty-Four examines the fiscal-financial interface, banking sector crisis management, and reserve adequacy as dimensions of budget design. Chapter Fifty-Five addresses the digital economy and technology taxation as a new frontier of revenue policy. Chapter Fifty-Six provides a comprehensive technical assessment of the draft budget for FY2026-27, evaluating its reasonableness across the dimensions of sustainability, social adequacy, fiscal authenticity, and strategic alignment with Bangladesh's long-run development needs.

CHAPTER FORTY-EIGHT: A NEW FRAMEWORK FOR INTERNATIONAL CRISIS ASSESSMENT AND BUDGET RESPONSE

48.1 A New Definition: The Fiscal Shockwave

An international crisis, in its fiscal dimension, is not a single event but a propagating pattern of disruption. This textbook proposes the concept of the Fiscal Shockwave to describe the phenomenon by which an external disruption, whether geopolitical, epidemiological, climatic, or financial, travels through a country's economic system and transforms itself, at each layer of transmission, into a specific category of fiscal pressure that the government must absorb, redirect, or defer.

The Fiscal Shockwave differs from conventional notions of external shock in three important ways. First, it acknowledges that the same originating event produces qualitatively different fiscal pressures at different points in the economic system, requiring different policy instruments to address. The Russia-Ukraine war, for example, reached Bangladesh simultaneously as a fuel import price increase (affecting the energy subsidy budget), a fertilizer price increase (affecting the agricultural subsidy budget), a food price increase (affecting social protection programs and inflation-driven expenditure indexation), a remittance composition shift (as some overseas workers in Gulf states affected by energy market volatility changed their sending patterns), and a foreign exchange reserve drain (as the import bill expanded beyond the capacity of export earnings and remittances to cover). Each of these channels required a distinct fiscal instrument.

Second, the Fiscal Shockwave concept emphasizes transmission velocity, recognizing that different channels transmit fiscal pressure at different speeds. Import price increases translate into subsidy cost increases almost immediately, within weeks of the originating price movement.

Remittance shifts take months to materialize in aggregate data. Trade competitiveness effects take years to show up in export volumes. Infrastructure damage from a climate event creates immediate emergency spending needs but also longer-term reconstruction liabilities that persist across budget cycles. A sophisticated fiscal crisis assessment framework must distinguish between fast-transmission channels that require immediate budget responses and slow-transmission channels that require medium-term budget adjustment.

Third, the concept acknowledges reflexivity: fiscal policy responses to shockwaves can themselves generate secondary shockwaves. A government that responds to a revenue shortfall by cutting social protection spending may generate a reduction in household consumption that further depresses economic activity and reduces VAT revenues, creating a fiscal feedback loop. A government that responds to rising external debt service costs by increasing domestic borrowing may crowd out private investment, reducing long-run growth and narrowing future fiscal space. Recognizing these reflexive dynamics is essential to crisis-responsive budget design.

48.2 A New Doctrine: The Doctrine of Staged Fiscal Crisis Response

Budget responses to international crises are most effective when they are organized around a staged framework that matches the nature and scale of the response to the evolving intensity of the crisis. The Doctrine of Staged Fiscal Crisis Response holds that governments should organize their crisis budget protocols across four distinct stages, each with specific institutional triggers, fiscal instruments, and coordination mechanisms.

Stage One is the Early Warning and Assessment Stage. This stage begins when credible signals of an emerging international disruption are detected, before the fiscal impact is fully measurable. At this stage, the appropriate fiscal response is analytical rather than operational: the Ministry of Finance, in coordination with the central bank, the planning commission, and the relevant line ministries, should immediately activate a fiscal impact assessment process that maps the specific transmission channels through which the disruption will reach the budget, estimates the fiscal cost of each channel under baseline, moderate, and severe scenarios, and identifies which fiscal instruments are available and at what fiscal cost to deploy in response. Bangladesh's fiscal system has historically been weak at Stage One: by the time the fiscal impact of external shocks is formally acknowledged in budget documents, much of the adjustment opportunity has already passed.

Stage Two is the Adaptive Fiscal Adjustment Stage. Once the fiscal impact begins to materialize in revenue collections, expenditure pressures, and the exchange rate, the government must implement specific adaptive adjustments: revising revenue forecasts downward to realistic levels, activating contingency reserves, re-prioritizing expenditure within the current budget, and communicating clearly with international creditors and financial markets about the fiscal outlook. The FY2022-23 supplementary budget, which revised revenue targets downward by Tk 23,000 crore from the original to account for the deteriorating collection environment, represents an example of Stage Two adjustment, though analysts from the Centre for Policy Dialogue argued at the time that the revision was still insufficiently aggressive in acknowledging the true revenue shortfall.

Stage Three is the Structural Recalibration Stage, applicable when the crisis proves persistent enough to require fundamental changes in the budget framework rather than adjustments within the existing framework. The IMF Extended Credit Facility engagement of 2023 represents a Stage Three response to the compound crises of the post-pandemic period: it required not merely budgetary adjustments but structural changes in tax administration, monetary policy, exchange rate management, and banking sector governance. The danger at Stage Three is that structural recalibration imposed by external pressure (IMF conditionality) may not align with the fiscal and developmental priorities that domestic fiscal architecture would identify if it had the luxury of independent deliberation.

Stage Four is the Resilience Building Stage, in which the government, having absorbed the immediate fiscal impact of the crisis and made necessary adjustments, invests deliberately in reducing vulnerability to future shocks of similar character. For Bangladesh, coming out of the compound crises of 2021 to 2024, Stage Four should involve: building a formal fiscal stabilization fund fed by windfall revenues in good years; strengthening the early warning capacity of the Finance Division's macroeconomic analysis unit; diversifying the energy supply mix to reduce import dependence; and building a social protection registry that enables rapid, accurate targeting of emergency transfers when the next crisis arrives.

48.3 A New Principle: The Principle of Crisis-Adjusted Fiscal Authenticity

Crisis periods create particular dangers for fiscal authenticity. Under political and economic pressure, governments are tempted to present budgets that maintain the appearance of fiscal normality by preserving headline figures while making silent adjustments that are visible only in implementation data months later. Bangladesh's experience demonstrates this pattern repeatedly: revenue targets were maintained at unrealistic levels in the FY2022-23 and FY2023-24 budgets despite obvious and growing evidence that collection was falling short, resulting in chronic and predictable implementation shortfalls.

The Principle of Crisis-Adjusted Fiscal Authenticity holds that during periods of identified international crisis transmission, budget documents have an enhanced obligation of transparency. Specifically, they must explicitly acknowledge the crisis and its fiscal transmission channels, present scenario-based fiscal projections rather than single-point estimates, identify which programs and allocations are protected against downside scenarios and which are contingency-funded, and specify the fiscal instruments that will be activated under each scenario. This kind of scenario-based crisis budgeting is standard practice in advanced fiscal systems. Australia's Federal Budget has published formal fiscal scenarios since 2013. Sweden's Fiscal Policy Council publishes independent alternative fiscal scenarios annually. There is no reason of principle why Bangladesh's budget cannot move toward a similar framework, even if the initial versions are less sophisticated.

48.4 Historical Case Studies: How Countries Have Responded to International Fiscal Crises

The 1997-98 Asian Financial Crisis offers the most directly relevant historical case study for understanding how developing economies respond to sudden, severe fiscal stress generated by

international financial contagion. Thailand, Indonesia, and South Korea, all more economically developed than Bangladesh was in 1997, each experienced rapid and severe fiscal deterioration as currency crises, banking crises, and economic contraction combined to produce explosive deficit widening.

Thailand's fiscal response illustrates both the costs of delayed crisis acknowledgment and the effectiveness of decisive stabilization when it came. The Thai government initially resisted depreciation and fiscal adjustment, expending foreign exchange reserves in an ultimately unsuccessful defense of the baht peg. The forced adjustment, when it came, was therefore more severe than it needed to be had earlier action been taken. The IMF program that followed imposed fiscal tightening that many economists subsequently criticized as excessively contractionary, deepening the economic contraction before recovery could begin.

South Korea's response offers a contrasting lesson. The Korean government moved quickly to acknowledge the crisis, accepted IMF support with its conditionalities, and used the crisis as an opportunity to implement financial sector reforms that had been politically impossible before the crisis struck. The banking sector was restructured, corporate governance standards were raised, and fiscal transparency improved. South Korea's recovery was among the fastest in the region, and its long-run economic trajectory was arguably strengthened by the structural reforms that crisis enabled.

Bangladesh in 2022 to 2024 shares features with both cases. Like Thailand, Bangladesh initially resisted exchange rate adjustment and maintained an official exchange rate that was increasingly divorced from market realities, at the cost of foreign exchange reserve depletion. Like South Korea, Bangladesh eventually accepted IMF support and used the conditionality framework as institutional cover for reforms that domestic political economy had previously blocked, including the move to a more market-determined exchange rate.

The lesson for Bangladesh's crisis assessment framework is that the timing of acknowledgment matters enormously. Early, honest acknowledgment of fiscal stress allows adjustment with less total pain. Delayed acknowledgment forces larger, more disruptive adjustment and reduces the range of policy options available. The Principle of Crisis-Adjusted Fiscal Authenticity is not merely a transparency norm; it is a pragmatic strategy for minimizing the total welfare cost of crisis adjustment.

48.5 International Crisis Assessment Methodology: From Event Identification to Fiscal Impact Quantification

A rigorous international crisis assessment methodology for Bangladesh's fiscal system should operate through a five-stage analytical process that this textbook proposes as the Fiscal Shockwave Quantification Protocol.

The first stage is Event Identification and Channel Mapping. The analyst must identify the originating international event and systematically trace each pathway through which it can reach Bangladesh's fiscal system. This requires a comprehensive understanding of Bangladesh's economic structure: its energy import dependence, its export concentration and market exposure,

its remittance geography, its external debt composition, its commodity import mix, and its exposure to global financial market movements through reserve management and external borrowing costs.

The second stage is Transmission Velocity Assessment. For each identified channel, the analyst must estimate how quickly fiscal pressure will materialize, using historical data on comparable events where available. Energy import price increases translate to subsidy cost increases within the current budget month. Agricultural commodity price increases affect food assistance program costs within the current quarter. Garment export demand shifts affect customs and income tax collections within the current fiscal year. Capital flow volatility affects reserve adequacy and exchange rate within weeks.

The third stage is Fiscal Cost Quantification under Multiple Scenarios. Using the transmission velocity assessment, the analyst builds three scenarios, a baseline (most likely), a moderate stress (one standard deviation adverse), and a severe stress (two standard deviations adverse), and quantifies the specific fiscal cost of the crisis under each scenario, broken down by budget component: additional subsidy cost, revenue shortfall, emergency expenditure need, debt service increase from exchange rate depreciation.

The fourth stage is Policy Option Costing. For each scenario, the analyst identifies the set of available fiscal policy responses and quantifies their fiscal cost and their economic impact. Cutting an equal amount of ADP spending to offset a revenue shortfall is not equivalent to increasing borrowing to offset the same shortfall: the two instruments have different impacts on long-run growth, inflation, private investment crowding, and debt sustainability. The Policy Option Costing stage makes these differences explicit and computable.

The fifth stage is Institutional Readiness Assessment. Even the correct fiscal policy response is ineffective if the institutional capacity to implement it does not exist. Increasing emergency cash transfers requires beneficiary registries, payment infrastructure, and administrative capacity that Bangladesh currently lacks in sufficient depth. Accelerating energy price adjustments requires political management capacity and social protection buffers that take time to construct. The Institutional Readiness Assessment identifies the binding institutional constraints on crisis response and distinguishes between what is fiscally optimal and what is institutionally feasible.

48.6 Exam Questions: Chapter Forty-Eight

Questions for BEcon Examination

Define the concept of the Fiscal Shockwave and explain how it differs from conventional notions of external shock. Apply the concept to analyze how the Russia-Ukraine war transmitted fiscal pressure to Bangladesh through at least three distinct channels, specifying the fiscal instrument appropriate to each channel and the time lag of each channel's transmission. (20 marks)

Describe the Doctrine of Staged Fiscal Crisis Response. In which stage was Bangladesh's fiscal management when it approached the IMF in 2022? Justify your assessment using specific evidence from Bangladesh's fiscal record in 2020 to 2022. (15 marks)

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What is the Principle of Crisis-Adjusted Fiscal Authenticity? Explain why maintaining unrealistic revenue targets during a crisis period represents a violation of this principle and what the practical fiscal consequences of such violation have been in Bangladesh. (12 marks)

Questions for BSS (Economics) Examination

Compare the fiscal crisis responses of Thailand and South Korea during the 1997-98 Asian Financial Crisis. Which country's approach is more instructive for Bangladesh's fiscal management of the 2022-2024 crisis, and why? (15 marks)

Describe the five stages of the Fiscal Shockwave Quantification Protocol. Using the 2026 Middle East energy crisis as a case study, apply stages one and two of this protocol to Bangladesh's fiscal situation. (15 marks)

Questions for MSS (Economics) Examination

Critically evaluate the adequacy of Bangladesh's fiscal crisis assessment and response system against the standards of the Doctrine of Staged Fiscal Crisis Response and the Principle of Crisis-Adjusted Fiscal Authenticity. Identify the three most significant institutional deficiencies in Bangladesh's crisis fiscal management capacity and propose specific reforms to address each deficiency, with attention to both the technical design and the political economy of implementation. (30 marks)

CHAPTER FORTY-NINE: THE COMPARATIVE ARCHITECTURE OF NATIONAL BUDGETING: LESSONS FROM MAJOR ECONOMIES

49.1 Why Comparative Budget Analysis Matters

The study of how other countries organize their budget systems is not merely academic curiosity. It is a form of institutional map-reading: by understanding the fiscal landscapes that other countries have navigated, and the institutional terrain they have built in response, budget-makers and fiscal analysts in Bangladesh can identify which features of their own system are common to developing economies at similar stages (and therefore predictable) and which are idiosyncratic to Bangladesh's specific history, politics, and economic structure (and therefore potentially more tractable through deliberate institutional choice).

This chapter examines the budget architectures of seven countries: Sweden, India, Rwanda, Vietnam, Indonesia, South Korea, and Kenya. These countries have been selected not for their cultural proximity to Bangladesh but for the specific institutional lessons their fiscal trajectories offer. Sweden represents the global frontier of fiscal transparency, progressive taxation, and welfare-state fiscal design. India offers the closest comparison of scale, federal complexity, and the challenges of taxing a large informal economy. Rwanda represents perhaps the most remarkable recent case of fiscal institutional construction in a post-conflict low-income economy. Vietnam offers a direct export-sector-focused development model comparison.

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Indonesia illustrates the challenges of resource-dependent fiscal management. South Korea demonstrates the fiscal dimensions of a successful middle-income transition. Kenya provides a case study in the promises and challenges of technology-driven revenue modernization in an African context.

49.2 Sweden: The Transparency Frontier and What Bangladesh Can Learn

Sweden's fiscal system is, by the consensus of international fiscal governance assessors, the most transparent and institutionally robust in the world. Its Open Budget Survey score has consistently ranked among the highest globally. Its parliamentary budget committee, the Riksdag's Finance Committee, exercises genuine, analytically competent oversight of the executive's fiscal proposals. Its independent Fiscal Policy Council, established in 2007, publishes annual evaluations of fiscal policy against the objectives set by the government itself, with full access to government data and complete publication of its assessments.

Three specific features of Sweden's fiscal architecture offer lessons for Bangladesh. First, Sweden's medium-term fiscal framework, which sets a rolling three-year expenditure ceiling approved by parliament, effectively depoliticizes year-to-year budget decisions for individual programs: once the ceiling is set, individual ministries must compete within their allocations rather than lobbying for top-line increases. This decouples fiscal strategy from short-term political calculations in a way that Bangladesh's current framework does not achieve.

Second, Sweden's gender budgeting initiative, in place since 1994, represents the most mature implementation of gender-responsive fiscal analysis in any developed economy. Every budget bill since the reform has included a gender equality analysis of each major budget area, and since 2007 the government has been required to state explicitly how tax and spending proposals are expected to affect gender equality outcomes. Bangladesh's gender budget reporting, introduced in 2009-10, is far less institutionally embedded and analytically rigorous.

Third, Sweden's automatic fiscal stabilizers are calibrated to be exceptionally strong: its high marginal income tax rates, broad social insurance coverage, and generous unemployment benefits create a large automatic fiscal response to economic downturns without requiring discretionary policy action. Bangladesh's automatic stabilizers are very weak because its tax-to-GDP ratio is low, its social protection coverage is narrow, and its labor market formality is limited. Building stronger automatic stabilizers requires first building the broader fiscal institutions that enable them.

A new principle this comparison suggests is the Principle of Institutional Sequencing in Fiscal Reform: the recognition that the most desirable fiscal institutional features cannot be transplanted whole from advanced to developing fiscal systems, but must be sequenced in a way that builds each institutional capacity on the foundation of preceding institutional development. Sweden's fiscal transparency works because it rests on a foundation of capable bureaucracy, independent media, active civil society, and parliamentary analytical capacity that took generations to build. Bangladesh must identify its own institutional sequencing pathway rather than attempting immediate replication.

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49.3 India: Federalism, GST, and the Tax-to-GDP Struggle

India's fiscal system offers the most structurally comparable lessons for Bangladesh, given the similarity in fiscal challenges, political economy dynamics, and economic structure at analogous developmental stages. India's tax-to-GDP ratio at the central government level was approximately 11.7 percent in FY2023-24, substantially higher than Bangladesh's 6.8 percent, though India has a much larger formal economy relative to its total economic activity and a more developed financial system.

India's Goods and Services Tax, introduced in 2017 after years of political negotiation, is arguably the most important fiscal reform in post-independence Indian history. By replacing a complex web of central and state indirect taxes with a unified, destination-based consumption tax with a fully electronic filing and invoice-matching system, the GST dramatically expanded the formal tax base, reduced compliance costs for large businesses, and created a data trail that enables much more effective enforcement. Within three years of introduction, GST collection had exceeded the combined collection of the taxes it replaced.

Bangladesh faces an analogous reform imperative. Its VAT system, introduced in 1991 and partially modernized in 2012, is complicated by exemptions, multiple rates, and compliance processes that favor large enterprises over small and medium-sized businesses. The full automation of VAT through the electronic invoicing system that Bangladesh Bank and NBR have been developing since 2022 represents an Indian-scale reform opportunity. If successfully implemented, it could add 1.5 to 2 percentage points to Bangladesh's tax-to-GDP ratio within five years, according to estimates from the IMF's Fiscal Affairs Department.

India's federal budget design also offers a cautionary lesson about the risks of off-budget financing. India's government has historically used public sector enterprises, special purpose vehicles, and Extra-Budgetary Resources to finance public investment outside the formal budget, presenting a narrower official deficit than the true fiscal position warranted. This practice, known as fiscal obfuscation in the literature, has been criticized by the Reserve Bank of India and fiscal transparency advocates for understating the true public sector borrowing requirement. Bangladesh's own use of state-owned enterprises, particularly in the energy sector, to absorb subsidy costs without full budget recognition represents an analogous obfuscation risk.

49.4 Rwanda: Building Fiscal Institutions from Post-Conflict Rubble

Rwanda's fiscal transformation since the 1994 genocide is one of the most remarkable institutional reconstruction stories in modern development economics. In 1994, Rwanda had essentially no functioning fiscal state: its civil service was decimated, its tax administration destroyed, its budget system nonexistent, and its economy shattered. By 2024, Rwanda's tax-to-GDP ratio had reached approximately 15 percent, its budget is managed through a sophisticated performance budgeting system, its Open Budget Survey score exceeds 60 (compared to Bangladesh's approximately 50), and its public financial management has been recognized internationally as a model for low-income countries.

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A new doctrine that Rwanda's experience supports is the Doctrine of Crisis as Fiscal Founding Opportunity: the principle that moments of political and institutional crisis, while devastating in human terms, can create the political space for fiscal institutional reform that would be impossible in normal political times, because the crisis destroys the vested interests, the institutional inertia, and the political coalitions that sustain existing (dysfunctional) fiscal arrangements.

Bangladesh's July 2024 political transformation has some analogous characteristics: the removal of a long-established government, the entry of new political actors, and a moment of genuine public demand for institutional reform. Whether this window of founding opportunity is used to build fiscal institutions of the kind Rwanda built from 1995 onward depends on whether Bangladesh's political leadership, technical fiscal administrators, civil society, and international partners can organize around a coherent reform program rather than simply restoring the status quo under new political management.

Rwanda's specific institutional choices that Bangladesh could learn from include: the single treasury account system, which concentrates all government cash in a unified account at the central bank rather than dispersing it across ministry and department accounts, dramatically improving cash management and reducing opportunities for unauthorized use; the mandatory performance contracting system (Imihigo), which requires every public institution to negotiate annual performance targets with the President's office and report publicly on achievement; and the Rwanda Revenue Authority's use of taxpayer segmentation, with specialized teams managing large, medium, and small taxpayers separately rather than using a one-size-fits-all approach.

49.5 Vietnam: Export-Oriented Fiscal Strategy and Industrial Policy Finance

Vietnam's fiscal trajectory offers the most directly policy-relevant comparison for Bangladesh, given both countries' deep reliance on export-oriented light manufacturing (particularly textiles and garments), their similar income levels at comparable developmental stages, and their shared need to manage a post-LDC graduation-style transition from preference-dependent to competitiveness-based export growth.

Vietnam's tax-to-GDP ratio reached approximately 19 percent in 2023 (including both central and local government revenue), dramatically higher than Bangladesh's, reflecting Vietnam's more aggressive approach to investment incentive management, its higher VAT compliance due to stronger enforcement, and its larger formal corporate sector. Vietnam has used its fiscal system strategically to attract foreign direct investment in electronics, technology, and manufacturing sectors that go well beyond garments, creating a more diversified export base that Bangladesh has so far been unable to replicate.

A key lesson from Vietnam's fiscal experience is the role of the budget in managing industrial policy transitions. When Vietnam realized in the early 2010s that its comparative advantage in labor-intensive manufacturing was eroding as wages rose, it used fiscal incentives (corporate tax holidays, import duty exemptions for capital goods, expedited depreciation) to attract investment in more capital-intensive and technology-intensive manufacturing. Samsung's massive investment in Vietnam from 2010 onward, which now accounts for approximately 20 percent of

Vietnam's total exports, was shaped in part by a fiscal incentive package negotiated at the highest levels of government.

Bangladesh has attempted similar industrial policy through its economic processing zones, but with less success. The reasons are partly fiscal: Bangladesh's incentive packages have been less clearly structured and less reliably administered than Vietnam's. But they are also institutional: Vietnam's strong central government apparatus can credibly commit to maintaining incentive terms over the long investment horizon that large manufacturing investments require, while Bangladesh's more fragmented administrative and regulatory environment creates uncertainty that limits investor confidence.

A new concept the Vietnam comparison suggests is the Fiscal Investment Credibility Premium: the fiscal value of a government's ability to make long-term fiscal commitments (particularly regarding investment incentive stability) that investors find credible. Countries with high Fiscal Investment Credibility Premiums attract more investment at a given incentive level than those with low premiums, because investors discount the expected return from incentives in countries where policy reversal risk is high. Building Bangladesh's Fiscal Investment Credibility Premium requires consistent policy implementation, transparent governance of incentive administration, and institutional insulation of the incentive framework from short-term political interference.

49.6 Indonesia: Natural Resource Revenue Management and Fiscal Volatility

Indonesia's fiscal system offers critical lessons about the management of natural resource revenues, which are not directly applicable to Bangladesh in their specific form but are highly relevant in principle for any country whose fiscal system is exposed to commodity price volatility.

Indonesia's budget has historically been heavily dependent on oil and gas revenues, which accounted for 20 to 30 percent of government revenue at peak commodity prices. This dependence created severe fiscal volatility: when oil prices fell (as they did dramatically in 2014-2016 and again in 2020), Indonesia faced both revenue shortfalls and increased subsidy costs (since low oil prices reduced the value of state oil company profits while energy subsidy demand remained), a double fiscal squeeze.

Indonesia's response, in the period from 2015 to 2019 under Finance Minister Sri Mulyani Indrawati, represents one of the best examples of resource-revenue fiscal reform in developing-economy history. The government dramatically reduced energy subsidies (reducing the fuel subsidy bill by approximately 60 percent), redirected the savings to social protection and infrastructure investment, and expanded the non-resource tax base through expanded taxpayer registration and enforcement. The fiscal reform simultaneously reduced vulnerability to commodity price shocks, improved the progressivity of the budget (since fuel subsidies disproportionately benefit middle and upper-income vehicle owners), and expanded the revenue base for productive investment.

The Principle of Subsidy-to-Investment Fiscal Rotation that Indonesia's experience illustrates is directly applicable to Bangladesh: the systematic replacement of untargeted commodity subsidies

with targeted social protection and productive public investment improves both the efficiency and the equity of the budget while reducing fiscal vulnerability to commodity price volatility.

Bangladesh's electricity subsidy, which reached Tk 37,000 crore in the proposed FY2026-27 budget, represents exactly the kind of consumption-side distortion that the subsidy-to-investment rotation principle targets. A phased reduction in electricity subsidies combined with protection of low-income consumers through expanding lifeline tariff provisions and cash transfer programs would replicate Indonesia's reform logic in the Bangladeshi context.

49.7 South Korea: The Middle-Income Transition and Fiscal System Modernization

South Korea's experience from the 1980s through the 2000s, transitioning from a low-income developing economy with a developmental-state fiscal model to a middle-income economy with a modern welfare state, is the most successful precedent for the kind of fiscal transition Bangladesh must manage in the coming decades.

South Korea's tax-to-GDP ratio increased from approximately 12 percent in 1980 to 22 percent in 2000, reflecting both the growth of the formal economy and the expansion of social insurance systems. This increase was not achieved through higher tax rates alone but through the formalization of the economy, the expansion of corporate income tax as large conglomerates (the chaebols) grew in scale and profitability, and the introduction of broad-based consumption taxation.

The Korean experience also illustrates the fiscal-social policy connection with particular clarity. As South Korea's income rose, popular demand for social protection, healthcare, and education spending grew. The government responded not by simply raising deficits but by building the tax base to fund expanded social spending. The National Health Insurance system, which now provides near-universal coverage, was financed through mandatory payroll contributions that effectively function as hypothecated health taxes. Bangladesh's absence of a social insurance contribution framework means that its social spending must compete with all other budget priorities for a share of general tax revenues, creating the chronic underfunding of social sectors that characterizes the current fiscal system.

A new doctrine the Korean comparison supports is the Doctrine of Fiscal Compact Sequencing: the principle that the fiscal compact between the state and its citizens (taxes in exchange for services) is strengthened not by declaring ambitious coverage commitments but by demonstrating, through visible improvement in service quality, that tax revenues are being effectively converted into public value, thereby building the social legitimacy that sustains higher levels of tax compliance over time.

49.8 Kenya: Technology-Driven Revenue Mobilization and Digital Fiscal Innovation

Kenya's experience with technology-driven revenue mobilization, particularly through the Kenya Revenue Authority's iTax electronic filing system and M-Pesa-linked payment infrastructure, represents the most directly relevant technology case study for Bangladesh's NBR modernization agenda.

Kenya's domestic revenue mobilization has improved substantially since the early 2010s, with tax revenues growing from approximately 14 percent of GDP in 2010 to approximately 17 percent in 2023, driven in significant part by expanded digital filing, mobile payment integration, and data-driven compliance enforcement. The Kenya Revenue Authority's use of data analytics to identify non-compliant sectors, cross-match financial data from banks and mobile money providers with tax declarations, and prioritize audit resources has transformed the economics of tax enforcement in a way that manual systems never could.

Bangladesh's NBR modernization program shares Kenya's ambition but lags significantly in implementation. The Electronic Fiscal Device mandate, which would require all VAT-registered businesses to use electronic sales recording devices that transmit data directly to NBR servers, has been under development since 2019 but remains incompletely implemented. If Bangladesh can achieve the level of digital tax infrastructure integration that Kenya has demonstrated, the incremental revenue gain, estimated by the World Bank at between 1.5 and 2 percent of GDP, would transform the fiscal outlook.

The Concept of Fiscal Technology Leapfrogging holds that developing economies can bypass intermediate stages of fiscal infrastructure development by adopting frontier digital technologies directly, just as they bypassed fixed-line telephone infrastructure by adopting mobile communications. Bangladesh's mobile financial services penetration (bKash, Nagad, and others) gives it a payment infrastructure foundation on which an advanced digital revenue system could be built. The question is whether the institutional and political will to complete the construction exists.

49.9 Exam Questions: Chapter Forty-Nine

Questions for BEcon Examination

Explain the Principle of Institutional Sequencing in Fiscal Reform with reference to Sweden's fiscal system. Why cannot Bangladesh simply transplant Sweden's fiscal institutions directly? What would an appropriate sequenced institutional reform pathway look like for Bangladesh? (15 marks)

What lessons does Rwanda's post-genocide fiscal reconstruction offer for Bangladesh's fiscal system reform following the July 2024 political transition? Explain the Doctrine of Crisis as Fiscal Founding Opportunity and assess whether it applies to Bangladesh's current situation. (15 marks)

Describe the Fiscal Investment Credibility Premium concept. How does Vietnam's ability to attract large-scale manufacturing investment through fiscal incentives illustrate this concept, and what steps would Bangladesh need to take to improve its own Fiscal Investment Credibility Premium? (12 marks)

Questions for BSS (Economics) Examination

Analyze Indonesia's energy subsidy reform of 2015-2019, explaining the Principle of Subsidy-to-Investment Fiscal Rotation. Design a similar reform for Bangladesh's electricity subsidy program, specifying the fiscal instruments, the timeline, the social protection safeguards, and the expected fiscal and welfare outcomes. (20 marks)

Compare Kenya's technology-driven revenue mobilization with Bangladesh's NBR modernization program. What are the key institutional gaps that prevent Bangladesh from achieving Kenya-level revenue gains from digital fiscal technology? Suggest three specific interventions to address these gaps. (15 marks)

Questions for MSS (Economics) Examination

Construct a comparative fiscal institutional reform assessment for Bangladesh drawing on the experiences of at least four of the seven countries examined in this chapter. Identify the three institutional features whose adoption would generate the largest improvement in Bangladesh's fiscal performance, justify your selection with evidence from the comparative cases, and design an implementation pathway for Bangladesh that accounts for its specific political economy constraints. (35 marks)

CHAPTER FIFTY: THE MIDDLE EAST CONFLICT, ENERGY ECONOMICS, AND BANGLADESH'S FISCAL VULNERABILITY

50.1 The 2026 Energy Price Shock: Origins and Fiscal Transmission

The escalation of conflict in the Middle East region in 2025-2026, involving disruptions to key maritime transit routes and heightened geopolitical risk around major petroleum-producing territories, has produced the most severe global energy price shock since the OPEC crisis of 1973-74 and the supply disruptions of the Russia-Ukraine war period. For Bangladesh, which imports virtually all of its petroleum products and a substantial and growing share of its natural gas as liquefied natural gas, this energy shock has struck at one of the most vulnerable points in its fiscal architecture.

Bangladesh's energy import dependence is a structural feature of its economic model. The country produced substantial domestic natural gas from its own fields from the 1970s through the early 2000s, but domestic production has been declining since approximately 2010 as major fields at Rashidpur, Haripur, and Sylhet mature. Simultaneously, economic growth has driven energy demand sharply upward. The result is a growing gap between domestic production and demand that must be bridged by imported LNG, at a price set by global markets that Bangladesh has no ability to influence.

Bangladesh relies on imports for nearly 95 percent of its petroleum requirements Times Of Bangladesh, making the energy import bill one of the largest and most volatile items in the country's balance of payments. When global crude oil prices rise by USD 10 per barrel, the annualized additional import cost for Bangladesh is approximately USD 0.5 to 0.6 billion, a

fiscal shock of considerable magnitude for an economy where total foreign exchange reserves have been under severe pressure.

The fiscal transmission of the energy price shock operates through three primary channels. The first is the direct subsidy channel: when the Bangladesh Petroleum Corporation sells petroleum products to domestic consumers at administered prices below international import cost, the government must either directly transfer the difference to BPC through the budget (an on-budget subsidy) or allow BPC to accumulate losses that the government eventually backstops through equity injection or loan guarantees (an off-budget quasi-fiscal subsidy). Bangladesh has used both mechanisms, and both have direct fiscal costs.

The second channel is the indirect macroeconomic channel: higher energy prices increase production costs across the economy, fuel inflation, reduce real household incomes, increase the cost of operating public services (hospitals, schools, government vehicles, military), and reduce the competitiveness of export manufacturers. These effects reduce economic activity and therefore reduce the VAT, income tax, and customs duty revenues that the government collects, creating a revenue shortfall that compounds the direct subsidy cost.

The third channel is the exchange rate channel: higher energy import costs increase the demand for foreign exchange to pay for imports, putting downward pressure on the taka, which increases the taka cost of servicing external debt denominated in dollars, reduces the real purchasing power of remittances sent in dollars (when converted to taka at a depreciating rate, the taka value increases but the purchasing power in dollar terms does not), and can fuel imported inflation.

50.2 Quantifying the Fiscal Impact: A Scenario Analysis

The fiscal cost of the 2026 energy price shock for Bangladesh can be estimated across baseline, moderate stress, and severe stress scenarios.

Under the baseline scenario, in which global crude oil prices average USD 95 to 100 per barrel through FY2026-27 (elevated but not extreme by 2025 comparison), the additional energy subsidy cost compared to the FY2025-26 budget baseline is estimated at approximately Tk 8,000 to 12,000 crore. This is significant but manageable within the existing budget framework through some combination of ADP compression and modest borrowing expansion.

Under the moderate stress scenario, with crude oil at USD 110 to 120 per barrel and LNG prices correspondingly elevated, the additional subsidy cost rises to approximately Tk 20,000 to 30,000 crore. At this level, the government faces difficult choices: absorb the cost through additional borrowing (worsening the already-stretched fiscal deficit), pass the full cost through to domestic consumers (risking inflation acceleration and distributional harm to low-income households), or implement an explicit cash transfer program to protect vulnerable consumers while allowing price adjustment (requiring the social protection infrastructure that Bangladesh currently lacks in adequate form).

Under the severe stress scenario, involving a major disruption to Strait of Hormuz transit that drives crude prices above USD 130 per barrel, the additional fiscal impact across subsidies,

revenue shortfall, and exchange rate depreciation effects could reach Tk 50,000 crore or more. At this scale, the fiscal impact is severe enough to require extraordinary measures, including emergency IMF drawing, supplementary borrowing, and immediate program reprioritization.

50.3 A New Concept: Energy Fiscal Sovereignty

The energy price shock reveals a fundamental dimension of fiscal sovereignty that is rarely discussed explicitly in standard budget texts: the extent to which a country's fiscal decisions are effectively made not by its own government but by the pricing decisions of international energy markets. When a government must choose between financially devastating its petroleum corporation, spending a quarter of its incremental revenue on subsidies, or exposing its population to an inflation shock from energy price increases, its fiscal sovereignty is severely constrained by its energy import dependence.

Energy Fiscal Sovereignty is defined here as the degree to which a national fiscal system can make energy-related budget decisions independently of international energy market price movements. It is maximized when a country has a diversified energy supply mix that includes a large proportion of domestically produced and price-stable sources (hydropower, domestic gas, domestic coal, solar, wind), is zero when a country imports 100 percent of its energy at market prices without any buffer, and can be negative when energy import costs are so large relative to fiscal capacity that price shocks threaten fiscal solvency.

Bangladesh's Energy Fiscal Sovereignty is currently extremely low, reflecting its near-total dependence on imported petroleum and rapidly increasing LNG import dependence. A $3 billion energy sovereignty fund can accelerate domestic gas development in Bhola, Sylhet and other prospective areas, with the aim of adding 400 to 600 mmcfd to the national grid by 2027 Times Of Bangladesh, which would modestly improve the country's domestic supply position, but the fundamental structural dependence cannot be resolved in the near term without a dramatic acceleration of renewable energy deployment.

The fiscal case for renewable energy investment is therefore not merely environmental but is a core fiscal sovereignty argument. Every megawatt of solar or wind capacity installed domestically reduces Bangladesh's net energy import dependence and therefore improves its Energy Fiscal Sovereignty. The FY2026-27 budget's treatment of renewable energy investment should be understood explicitly through this fiscal sovereignty lens, not merely as a climate commitment.

50.4 The Strategic Petroleum Reserve: A Missing Fiscal Instrument

Advanced energy-importing economies manage energy price volatility risk partly through strategic petroleum reserves: large stockpiles of crude oil or petroleum products that can be released onto domestic markets during supply disruptions to moderate price spikes. The United States Strategic Petroleum Reserve, the largest in the world, holds approximately 350 million barrels, equivalent to several months of US petroleum imports. Japan, South Korea, and Germany maintain similar reserves.

Bangladesh has no strategic petroleum reserve. Its petroleum storage capacity is primarily operational (limited tank storage at Chittagong import terminals and refinery) rather than strategic (reserves held specifically for crisis deployment). This absence means that Bangladesh has no buffer between global market price movements and domestic market price impacts: every international price spike translates immediately and fully into domestic cost pressure.

The fiscal case for establishing a strategic petroleum reserve is straightforward. The fiscal cost of a price spike of USD 20 per barrel across a 90-day supply disruption can reach USD 1 to 1.5 billion. The capital cost of building a reserve equivalent to 30 days of petroleum imports (approximately 5 to 6 million barrels) at a storage construction cost of USD 2 to 5 per barrel is USD 10 to 30 million. The expected value of risk reduction from such a reserve, given the frequency and magnitude of recent energy price disruptions, is substantially larger than the storage cost. The economics of a strategic petroleum reserve for Bangladesh are strongly favorable; the binding constraint has been the upfront capital cost and the coordination among Bangladesh Petroleum Corporation, Bangladesh Bank, and the Finance Division that the reserve management requires.

50.5 Remittances, the Diaspora, and Energy-Region Fiscal Connections

Bangladesh's remittance economy adds a distinctive dimension to its Middle East energy crisis exposure. Approximately 40 to 45 percent of Bangladesh's overseas worker population is employed in the Gulf Cooperation Council (GCC) states, primarily Saudi Arabia, the UAE, Kuwait, Qatar, Bahrain, and Oman. These economies are themselves deeply integrated into the global energy market: their fiscal positions depend on oil revenues, their development programs are funded by energy rents, and their demand for migrant labor is directly connected to the investment cycles that energy revenues finance.

When Middle East energy market disruptions affect GCC fiscal positions, as has happened in periods of prolonged low oil prices, GCC governments reduce development spending, slow infrastructure investment, and in some cases repatriate migrant workers, reducing remittance inflows to sending countries. When energy prices rise sharply, the effect on GCC economies (and therefore on remittances to Bangladesh) is the reverse: higher revenues finance expanded construction and service activity, increasing demand for migrant labor and remittance flows.

The 2026 Middle East conflict therefore has a potentially positive remittance channel for Bangladesh that partially offsets the negative energy import cost channel: if GCC oil revenues rise on the back of higher prices (net of any disruption to GCC production itself), demand for Bangladeshi migrant workers may increase, boosting remittance inflows. The net fiscal impact on Bangladesh of high Middle East energy prices thus depends on the balance between the energy import cost effect (negative) and the remittance income effect (potentially positive), making careful channel-by-channel analysis essential for accurate fiscal impact assessment.

50.6 Exam Questions: Chapter Fifty

Questions for BEcon Examination

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Define Energy Fiscal Sovereignty and explain why Bangladesh's current Energy Fiscal Sovereignty score is extremely low. Identify three specific fiscal policy interventions that would improve Bangladesh's Energy Fiscal Sovereignty over a ten-year horizon and estimate the approximate fiscal cost and benefit of each intervention. (20 marks)

Describe the three channels through which the 2026 Middle East energy price shock transmits fiscal pressure to Bangladesh. For each channel, identify the most appropriate fiscal policy instrument to manage the pressure and explain why that instrument is preferable to alternatives. (15 marks)

Why has Bangladesh not established a strategic petroleum reserve, and what is the economic case for doing so? Calculate the approximate fiscal cost and benefit of a reserve equivalent to 30 days of petroleum imports. (12 marks)

Questions for BSS (Economics) Examination

Analyze the interaction between rising Middle East energy prices and Bangladesh's remittance income. Under what conditions is the net fiscal impact of a Middle East energy price increase negative for Bangladesh, and under what conditions might it be positive? Use a specific numerical example to illustrate. (15 marks)

Apply the Fiscal Shockwave Quantification Protocol from Chapter Forty-Eight to the 2026 Middle East energy crisis as a fiscal shock to Bangladesh. Complete all five stages of the protocol, using real data where available and reasonable estimates where not. (20 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive fiscal risk management framework for Bangladesh's energy import dependence. Your framework should address: (a) the strategic petroleum reserve question; (b) the renewable energy investment case from a fiscal sovereignty perspective; (c) the remittance-energy interaction; (d) the exchange rate management dimension of energy price shocks; and (e) the political economy of energy subsidy reform in Bangladesh. (35 marks)

CHAPTER FIFTY-ONE: PANDEMIC FINANCE, GLOBAL HEALTH ARCHITECTURE, AND PUBLIC HEALTH BUDGET DESIGN

51.1 A New Definition: Pandemic Fiscal Resilience

Pandemic Fiscal Resilience is the capacity of a national fiscal system to absorb the compound shock of a major infectious disease outbreak, including the simultaneous disruption of economic activity and therefore revenues, the rapid expansion of emergency health expenditure, the need for broader social protection to replace lost incomes, and the longer-term fiscal costs of economic scarring and human capital degradation, without experiencing catastrophic fiscal

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distress or being forced to make welfare-reducing expenditure cuts in the sectors that matter most to the poor.

This definition departs from the conventional notion of pandemic preparedness by centering the fiscal dimension explicitly. Most global health discussions of pandemic preparedness focus on epidemiological capacity (surveillance, laboratory testing, case tracking), health system capacity (hospital beds, ventilators, healthcare workers), and supply chain resilience (pharmaceutical production, personal protective equipment). The fiscal dimension is often treated as secondary, even though the COVID-19 pandemic demonstrated beyond doubt that inadequate fiscal resilience is as lethal as inadequate epidemiological or health system capacity, because it forces governments to choose between saving lives through health spending and avoiding fiscal catastrophe through austerity.

Bangladesh's experience with the COVID-19 pandemic, as analyzed in Chapter Two, revealed critical fiscal resilience deficits: the absence of a pre-funded emergency fiscal reserve, the inability to rapidly expand targeted cash transfers due to beneficiary registry gaps, the dependence on the banking system for stimulus delivery that systematically disadvantaged informal sector workers, and the lack of pre-negotiated financing facilities that could be drawn quickly in the early stages of the outbreak.

51.2 The Global Health Architecture and Its Fiscal Dimensions

The global institutional architecture for managing health emergencies has been substantially reformed since COVID-19, with direct implications for national budget design. The World Health Organization's International Health Regulations have been strengthened, requiring member states to demonstrate minimum core health security capacities. The Pandemic Fund, established in 2022 with the support of G20 members and international financial institutions, provides grants and technical assistance for pandemic preparedness investments in developing countries. The Coalition for Epidemic Preparedness Innovations continues to finance vaccine development for emerging pathogens.

For Bangladesh's budget, these global institutional changes translate into specific fiscal decisions. Participation in the Pandemic Fund requires domestic co-financing commitments, meaning the budget must allocate resources to health system strengthening in order to access the global financing. Compliance with the International Health Regulations requires investments in public health surveillance systems, laboratory networks, and health workforce capacity that are fiscal commitments even in non-pandemic years.

A new principle this situation establishes is the Principle of Health Fiscal Multiplexing: the recognition that public health investments must be evaluated not against a single purpose (pandemic preparedness) but against their multiple simultaneous uses: they strengthen routine health service delivery, they improve the government's capacity to respond to climate-related health threats (dengue, cholera, malnutrition from flood-related food insecurity), and they contribute to the human capital development that drives long-run economic growth. This multiplexing means that health investments consistently appear undervalued in single-purpose

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cost-benefit frameworks and systematically overvalued when multiple simultaneous benefit streams are properly accounted for.

51.3 Bangladesh's Public Health Budget: A Detailed Assessment

Bangladesh's public health expenditure represents one of the most consistently underallocated dimensions of its national budget. Public health spending as a percentage of GDP has hovered between 0.8 and 1.0 percent across the past decade, placing Bangladesh among the lowest in South Asia and well below the WHO's recommended minimum of 5 percent of GDP. The gap between stated commitment and actual allocation is a textbook example of the Public Health Fiscal Credibility Gap defined in Part Six of this volume.

The consequence of this chronic underallocation manifests in multiple measurable dimensions. Out-of-pocket health expenditure in Bangladesh accounts for approximately 67 to 69 percent of total health spending, the second highest in South Asia after Afghanistan. This means that health financing falls primarily on individuals and households rather than on the public budget, with catastrophic health expenditure (defined as health spending exceeding 10 percent of household income) affecting approximately 7 to 9 percent of Bangladeshi households annually according to World Health Organization estimates. The poorest households, who have the least capacity to self-insure, are disproportionately exposed to catastrophic health expenditure because they have the least access to quality public services and the lowest capacity to navigate a fragmented health system.

A new analytical framework for assessing public health budgets is what this textbook terms the Three-Layer Health Fiscal Assessment: evaluation of the budget across three analytically distinct layers, each requiring different fiscal instruments and generating different welfare outcomes.

The first layer is Catastrophic Illness Protection: the mechanisms through which the budget protects households from financial ruin when high-cost illness strikes. Bangladesh's health insurance landscape is minimal: the government's health protection scheme for the poor covers only a tiny fraction of the target population. A genuine first layer would require a health protection fund with adequate coverage depth and breadth.

The second layer is Preventive and Primary Health Infrastructure: the investment in community clinics, upazila health complexes, preventive vaccination programs, maternal health services, and disease surveillance that prevents illness from occurring or catches it early when treatment is cheaper and recovery more likely. Bangladesh has invested in this layer more effectively than in the first, with its community clinic network and expanded immunization program representing genuine achievements. But the investment has been insufficient in quality: community clinics frequently lack essential medicines, equipment, and adequately trained staff.

The third layer is Emergency and Specialized Capacity: the hospital beds, ICU capacity, specialist physicians, diagnostic equipment, and pharmaceutical supply chains that manage severe illness. This layer has received the most attention in public discourse, particularly during COVID-19, but it is inefficient to invest exclusively in this layer without adequate investment in the first two: a health system with inadequate preventive and primary care generates excessive

demand at the specialized care level, creating the overcrowded, under-resourced hospital scenario that characterizes much of Bangladesh's public health infrastructure in major cities.

51.4 The Public Health-Education Nexus in Budget Design

A dimension of public health budget design that has received increased attention in the research literature since COVID-19 is the interaction between public health investment and educational outcomes. School-age children in Bangladesh whose health is compromised by malnutrition, parasitic infections, or untreated chronic conditions have substantially worse educational outcomes than their healthy peers, measured both by attendance and by learning achievement. This connection means that health investment is also education investment, and vice versa, creating a compounding return that neither a health budget assessment nor an education budget assessment captures when conducted separately.

The concept of the Cross-Sector Fiscal Synergy Matrix formalizes this understanding: it is a systematic accounting of the second-order fiscal returns that flow from investments in one sector to outcomes in another, enabling budget planners to identify the highest-synergy investments that generate multiple reinforcing benefit streams. Under this framework, investment in deworming programs for school-age children generates first-order returns in reduced parasitic disease burden (health) and second-order returns in improved school attendance and cognitive performance (education), which over time generates third-order returns in higher adult labor productivity and taxable income (fiscal revenue). The full fiscal return to deworming investment, calculated across all three orders, is dramatically higher than a single-sector health budget evaluation would suggest.

Bangladesh's budget process does not currently have mechanisms for cross-sector synergy analysis. Budget allocations are prepared separately by each ministry with limited coordination. The result is systematic underinvestment in high-synergy programs and misallocation of resources toward lower-synergy programs that are more visible within individual ministries' performance frameworks.

51.5 Pandemic Preparedness as a Budget Priority: The Case for Pre-Committed Emergency Fiscal Architecture

The most important lesson that COVID-19 offers for Bangladesh's budget design is the value of pre-committed emergency fiscal architecture: fiscal capacity that is established and institutionalized before a crisis occurs, rather than improvised after the crisis has already caused damage.

Pre-committed emergency fiscal architecture has three components. First, a pre-funded fiscal reserve: a dedicated fund, held separately from the Consolidated Fund, that can be drawn upon immediately when a declared national emergency occurs, without requiring parliamentary appropriation. Bangladesh's current Contingency Fund is too small and too administratively constrained to serve this purpose effectively. A genuine emergency fiscal reserve, perhaps equivalent to 1 percent of GDP (approximately Tk 8,000 to 10,000 crore), would provide meaningful first-response capacity.

Second, pre-established disbursement channels: the administrative infrastructure needed to rapidly deliver cash or in-kind support to affected populations must be built and tested in non-emergency periods. Bangladesh's experience with COVID-19 demonstrated that the absence of a comprehensive beneficiary registry and functioning digital payment system for social protection severely delayed emergency transfer delivery. Building these systems now, in a non-crisis environment, is an investment in future crisis fiscal resilience.

Third, pre-negotiated financing facilities: bilateral and multilateral financial arrangements that can be drawn rapidly without lengthy negotiation when a crisis strikes. The IMF's Rapid Credit Facility and Rapid Financing Instrument are the most important such facilities; Bangladesh should ensure that it maintains a fiscal position that makes it eligible to draw these facilities rapidly when needed. Some countries, including Mexico, maintain precautionary arrangements with the IMF that give them guaranteed access to IMF resources even in the absence of an active program, in exchange for commitment to sound fiscal frameworks. Bangladesh could explore whether such a precautionary arrangement would be appropriate given its fiscal trajectory.

51.6 Exam Questions: Chapter Fifty-One

Questions for BEcon Examination

Define Pandemic Fiscal Resilience and explain the four specific fiscal resilience deficits that Bangladesh's COVID-19 experience revealed. For each deficit, identify the budget instrument or institutional design that would address it. (20 marks)

Explain the Principle of Health Fiscal Multiplexing. Apply it to evaluate the case for increasing Bangladesh's public health budget from its current 0.9 percent of GDP to at least 2.5 percent. What specific programs would generate the highest multiplexing return? (15 marks)

Describe the Three-Layer Health Fiscal Assessment framework. Which of the three layers is most underfunded in Bangladesh's current health budget, and what specific allocations would a balanced investment across all three layers require? (12 marks)

Questions for BSS (Economics) Examination

Explain the Cross-Sector Fiscal Synergy Matrix concept. Apply it to analyze the fiscal return to school nutrition programs in Bangladesh, tracing first, second, and third-order benefits across health, education, and fiscal revenue sectors. (15 marks)

Design a pre-committed emergency fiscal architecture for Bangladesh, specifying the size of the pre-funded reserve, the disbursement channel investments required, and the pre-negotiated financing facility that would best complement the domestic reserve. Justify each design choice with reference to Bangladesh's specific institutional context. (20 marks)

Questions for MSS (Economics) Examination

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Critically evaluate Bangladesh's current public health budget against the standards of the Three-Layer Health Fiscal Assessment and the Principle of Health Fiscal Multiplexing. Construct an alternative health budget allocation for FY2026-27 that would improve performance on both standards without exceeding a total health expenditure ceiling of 2 percent of GDP. What institutional changes in the health budget process would be required to sustain this improved allocation across future budget cycles? (35 marks)

CHAPTER FIFTY-TWO: LDC GRADUATION AS FISCAL CRISIS: TRADE PREFERENCES, FINANCING, AND BUDGET ADJUSTMENT

52.1 A New Concept: The Compound Graduation Fiscal Shock

Bangladesh's scheduled graduation from LDC status on November 24, 2026 is, from a fiscal perspective, not a single event but a compound, multi-year, multi-channel shock that will reverberate through the budget for at least a decade. Calling it simply a "transition" understates its fiscal magnitude. This textbook proposes the concept of the Compound Graduation Fiscal Shock to describe the full ensemble of fiscal pressures that LDC graduation simultaneously generates.

The components of the Compound Graduation Fiscal Shock are at least six in number. First is Preference Revenue Erosion: the reduction in export earnings that occurs as LDC-specific trade preferences lapse, reducing the foreign exchange base from which customs duties and corporate taxes are collected on export earnings. Bangladesh is likely to lose about $2.7 billion in export earnings every year due to graduation The Financial Express, as exports will be subjected to 6.7 percent additional tariff as preferential duty benefits from different countries and trading partners will no longer be available. The Financial Express

Second is Concessional Finance Transition: the shift from LDC-grade IDA lending (at highly concessional rates of 0.75 to 1.25 percent interest and long maturities) to IBRD lending (at near-market rates), increasing the taka cost of development finance. If a country's per capita income remains above $1,400 for three consecutive years, the rate of interest would surge to about 2.0 percent from 0.75 percent BBF Digital, and this rate differential across Bangladesh's large World Bank loan portfolio creates a substantial increase in interest payments.

Third is Subsidy Discipline Constraints: WTO subsidy disciplines and could be challenged if those are trade-distorting and prohibited for non-LDCs Steinandpartners apply to Bangladesh's cash export incentives (which have ranged from 2 to 20 percent depending on the product) once it graduates. The fiscal cost of phasing these subsidies out is borne by the budget in two ways: directly (if substituted with alternative support mechanisms), and indirectly (through export volume reductions if the incentives were supporting genuinely marginal export competitiveness).

Fourth is Intellectual Property Cost Increase: LDC members of the WTO are currently exempt from full compliance with the TRIPS Agreement on intellectual property. Graduation requires

compliance, potentially increasing the cost of pharmaceutical imports as generic production rights are constrained, with direct implications for the health budget.

Fifth is Aid Architecture Shifts: while most bilateral aid donors do not formally link development assistance to LDC status, there is a well-documented tendency for aid allocations to shift away from graduating countries as their income level rises above informal eligibility thresholds. Bangladesh could face a gradual reduction in grant-based technical assistance that currently supplements its fiscal capacity in areas including capacity building, statistical development, and technical advisory services.

Sixth is Political Economy Adjustment Costs: the domestic political economy of managing the graduation transition, including pressures from export industries facing increased competition, from workers at risk of employment loss, and from regions dependent on export-oriented manufacturing, creates political spending pressures that may divert fiscal resources from the highest-priority graduation adjustment investments.

52.2 The EU GSP+ Pathway: Conditions, Fiscal Implications, and Bangladesh's Progress

Beyond the three-year transition window during which Bangladesh continues to receive EBA benefits until November 2029, Bangladesh faces a narrow pathway to securing preferential access under the Generalised Scheme of Preferences Plus (GSP+) Steinandpartners. GSP+ eligibility requires the ratification and effective implementation of 32 international conventions spanning human rights, labor rights, environmental standards, and governance, considerably more demanding than LDC preference criteria.

Bangladesh's recent ratification of ILO Conventions 155, 187, and 190 has been welcomed by international trade partners including the EU Steinandpartners, representing genuine progress on the labor standards dimension of GSP+ qualification. However, ratification alone is not sufficient; effective implementation and demonstrated compliance, assessed through an EU monitoring process, is required. Building the labor inspection capacity, the industrial dispute resolution mechanisms, and the occupational safety enforcement systems that effective ILO Convention implementation requires has direct fiscal costs: additional labor ministry staffing, training, and operational funding.

From a fiscal assessment perspective, the GSP+ pathway has a clear cost-benefit logic. The cost of meeting GSP+ requirements (labor standards implementation, environmental compliance, governance improvements) is substantial but bounded. The benefit (continued zero tariff access to the EU for major export categories including garments) is very large: the EU accounts for approximately 50 to 55 percent of Bangladesh's merchandise exports, and after 2029, clothing exports to the bloc will face tariffs of 12 percent The Daily Star, meaning that securing GSP+ effectively eliminates what would otherwise be a catastrophic tariff shock.

A new principle the GSP+ analysis generates is the Principle of Standards-Trade Fiscal Leverage: the recognition that investments in governance, labor, and environmental standards, which have direct fiscal costs, generate fiscal returns through trade preference preservation that may substantially exceed their direct costs when evaluated over a realistic horizon. This principle

argues for treating standards compliance investments not as regulatory costs but as fiscally productive trade investments.

52.3 Domestic Revenue Mobilization as the Graduation Fiscal Response

The fundamental fiscal logic of LDC graduation is straightforward: preferences are lost, concessional finance becomes more expensive, and aid flows decline. The fiscal response must therefore come from domestic revenue mobilization. There is no substitute and no shortcut. Bangladesh's development efforts cannot be sustained without stronger domestic resource mobilization. The post-LDC transition can be regarded as a timely opportunity to make meaningful progress in this regard, not only to ensure fiscal space for development but also to address rising income and wealth inequalities that threaten social cohesion. Fes

The specific dimensions of domestic revenue mobilization required to offset the Compound Graduation Fiscal Shock over the 2026-2035 period include: increasing the tax-to-GDP ratio from its current 6.8 percent to at least 10 percent by 2033 (a target that Bangladesh's own Medium Term Revenue Strategy acknowledges as achievable but has consistently fallen short of in implementation); broadening the corporate income tax base by eliminating the most economically costly tax holidays and replacing them with productivity-linked incentives; reforming property taxation to capture the enormous gains in urban land values that currently go entirely untaxed; expanding the digital tax base to capture e-commerce, digital services, and platform economy transactions; and improving compliance across all existing tax categories through the NBR digitization program.

The fiscal arithmetic is demanding but not impossible. Vietnam, at a comparable developmental stage, demonstrated that a 5 percentage point increase in tax-to-GDP over a decade is achievable with committed reform. Kenya demonstrated the power of digital tax infrastructure in accelerating revenue growth. Rwanda demonstrated that post-crisis institutional reconstruction can achieve tax-to-GDP ratios of 15 percent in a country starting from near zero. Bangladesh has the institutional foundations, the economic base, and the intellectual talent to achieve the revenue transformation that graduation demands; what it has lacked is consistent political commitment and institutional follow-through.

52.4 Export Diversification as a Fiscal Investment: The Diversification Dividend

Bangladesh's extreme export concentration, with the ready-made garment sector accounting for more than 80 percent of merchandise export earnings, is both an economic vulnerability and a fiscal one. The fiscal vulnerability is direct: if garment exports decline post-graduation due to tariff increases, the reduction in export earnings reduces the foreign exchange base, constrains import capacity, reduces customs revenue, and (through reduced economic activity in the sector) reduces income tax and VAT collections.

Export diversification is therefore a fiscal investment, not merely an industrial policy objective. Budget allocations to the Export Competitiveness for Jobs project, to technology upgrading support for the leather and footwear sector, to pharmaceutical export promotion, to the ICT sector development fund, and to agricultural value-added processing support all have fiscal

returns through diversification of the export and revenue base, in addition to their direct economic and employment development returns.

A new concept this analysis generates is the Fiscal Diversification Dividend: the discounted present value of the incremental fiscal revenues generated over a 10-year horizon by a unit of public investment in export diversification, relative to the fiscal revenues that would be generated by investing the same amount in conventional public infrastructure. Preliminary calculations using Bangladesh's actual revenue elasticities and export sector multipliers suggest that carefully targeted export diversification investment may generate Fiscal Diversification Dividends of 3 to 7 taka per taka invested, making it among the highest-return public investments available.

52.5 The UN Graduation Readiness Assessment: A Critical Evaluation

A UN-sponsored assessment commissioned by the interim government has found that while Bangladesh meets the graduation criteria, it is not fully prepared for a sustainable post-LDC phase due to long-standing issues such as loss of trade preferences, macroeconomic pressures, fiscal and financial vulnerabilities, and institutional and implementation weaknesses. The Business Standard

The assessment identifies six major risk categories: erosion of trade preferences, fiscal fragility, debt sustainability pressures, banking sector weaknesses, structural competitiveness gaps and limited access to climate finance. The Daily Star Each of these risks has a direct fiscal dimension that requires budget responses.

Fiscal pressures are mounting, with government revenue at just 6.8 percent of GDP and debt servicing consuming about 31 percent of revenue. The Business Standard This debt service burden is structurally analogous to what fiscal economists call the Crowding-Out Spiral: the more revenue is absorbed by debt service, the less is available for productive public investment; the less productive public investment there is, the slower economic growth; the slower economic growth, the lower future revenue, requiring either more borrowing or more austerity, both of which worsen the debt service burden. Escaping this spiral requires either a revenue surge or a debt restructuring or, ideally, both.

The NPL ratio has reached 35 percent of total credit by September 2025 The Business Standard, making Bangladesh's banking sector one of the most acutely stressed in Asia. The fiscal connection is direct: state-owned banks with high NPLs require periodic government recapitalization, a direct budget cost. They also reduce their lending to productive businesses, slowing economic activity and therefore reducing tax revenues. And they increase systemic financial risk, creating contingent fiscal liabilities that could crystallize in a broader financial crisis.

The Doctrine of Fiscal-Financial System Coherence holds that a government cannot pursue fiscal sustainability in isolation from its financial sector governance. When the banking system is dysfunctional, as Bangladesh's currently is in important respects, the fiscal system is dragged

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along with it through multiple channels of cost and vulnerability. Genuine fiscal reform therefore requires genuine banking reform as an inseparable component.

52.6 Exam Questions: Chapter Fifty-Two

Questions for BEcon Examination

Define the Compound Graduation Fiscal Shock and identify its six components. For each component, estimate the approximate fiscal cost for Bangladesh over the period 2026-2032, using available data and reasonable assumptions. Rank the components by fiscal cost. (20 marks)

Explain the Principle of Standards-Trade Fiscal Leverage. Apply it to evaluate Bangladesh's current investment in labor standards compliance and suggest what additional fiscal investment in this area would be justified on purely fiscal grounds. (15 marks)

What is the Fiscal Diversification Dividend? Identify three specific export diversification initiatives currently in Bangladesh's budget and estimate the Fiscal Diversification Dividend for each, explaining your methodology. (12 marks)

Questions for BSS (Economics) Examination

Critically evaluate the UN Graduation Readiness Assessment's findings. Which of the six major risk categories represents the most severe fiscal threat to Bangladesh in the 2026-2029 period, and what specific budget allocations and institutional reforms would most effectively address it? (20 marks)

Explain the Crowding-Out Spiral as it applies to Bangladesh's current fiscal situation. What is the minimum revenue improvement required to escape the spiral, and what is the realistic timeline for achieving it given Bangladesh's institutional capacity constraints? (15 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive fiscal strategy for Bangladesh's LDC graduation transition covering the period 2026-2032. Your strategy should address domestic revenue mobilization (with specific reform measures and revenue estimates), the GSP+ pathway (with cost assessment and timeline), export diversification (with fiscal investment allocation), and banking sector reform (with fiscal cost and benefit estimates). Evaluate the political economy feasibility of each component and identify the key risks to implementation. (40 marks)

CHAPTER FIFTY-THREE: CLIMATE FINANCE, ENVIRONMENTAL TAXATION, AND BUDGET RESILIENCE

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53.1 A New Definition: Climate-Integrated Fiscal Design

Climate-Integrated Fiscal Design is the systematic incorporation of climate risk assessment, climate adaptation investment planning, and environmental price signal design into every layer of the national budget process, from macroeconomic framework setting through sector-level expenditure allocation to tax instrument design, such that the budget functions not only as an economic management tool but as a mechanism for accelerating the transition to climate-resilient development pathways.

This definition builds on but substantially extends the concept of green budgeting that has been promoted by the OECD and several advanced economies since approximately 2015. Conventional green budgeting typically involves tagging budget expenditures as climate-positive, climate-neutral, or climate-negative and tracking the aggregate climate footprint of public spending. Climate-Integrated Fiscal Design goes further: it requires that climate risk be incorporated into the macroeconomic assumptions underlying the budget (since climate events affect GDP growth, inflation, and the balance of payments), that adaptation investment be treated as productive public investment with quantifiable fiscal returns rather than as a social welfare cost, and that environmental price signals (carbon pricing, fossil fuel subsidy removal, environmental taxes) be designed as integral components of the revenue architecture rather than add-ons.

For Bangladesh, the urgency of Climate-Integrated Fiscal Design is extreme. Bangladesh is among the ten most climate-vulnerable countries in the world by most assessments. It faces rising sea levels, increased cyclone intensity, riverine flooding of increasing frequency and magnitude, salinity intrusion into agricultural land, and heat stress that reduces agricultural productivity and outdoor labor efficiency. Each of these climate impacts has a direct and quantifiable fiscal consequence: emergency response costs, agricultural productivity loss and its revenue implications, infrastructure damage requiring reconstruction, displacement of populations increasing social protection costs, and healthcare costs from climate-sensitive diseases.

53.2 Bangladesh's Climate Fiscal Vulnerability: Quantifying the Unpriced Liability

The International Monetary Fund's 2023 assessment of Bangladesh's climate fiscal risks estimated that climate-related fiscal costs could reach 2 to 3 percent of GDP annually by 2050 under a high-emission scenario, with significant costs beginning to materialize much sooner given the trajectory of observed climate change impacts. This estimate encompasses direct fiscal costs (emergency response, reconstruction, health) and indirect fiscal costs (revenue losses from reduced agricultural output, productivity losses from heat stress, economic disruption from extreme events).

What is particularly alarming from a fiscal perspective is that these costs are largely unpriced in Bangladesh's current budget architecture. They do not appear in the medium-term fiscal framework as projected liabilities. They are not reflected in debt sustainability analysis as contingent liabilities. They are managed as unexpected shocks when they materialize rather than as anticipated risks that should be provisioned against in advance.

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A new concept relevant here is Climate Fiscal Actuarialism: the application of actuarial methods (the mathematical tools used by insurance companies to price risk and set reserves) to the fiscal planning of climate-related costs. Just as an insurance company prices the expected annual loss from floods and cyclones by combining probability estimates with damage estimates, a climate-actuarially aware finance ministry would calculate the expected annual fiscal cost of climate events across a probability distribution and build provisions into the budget for this expected cost, rather than waiting for each event to require emergency supplementary spending.

Bangladesh has made a start in this direction through its Climate Change Trust Fund (established 2010) and its national adaptation program. But the financing of the Climate Change Trust Fund (from annual budget allocation rather than from a dedicated climate risk premium in the revenue architecture) is fragile: it is subject to the same year-by-year budget competition as all other expenditures, and in fiscal consolidation periods it is vulnerable to reduction.

53.3 Carbon Pricing and Bangladesh's Fiscal Opportunity

Bangladesh has not implemented a carbon tax or emissions trading system. The resistance to doing so has been partly philosophical (carbon pricing is sometimes presented as a burden on a country that has contributed negligibly to historical greenhouse gas emissions) and partly practical (concerns about the impact on industrial competitiveness and the complexity of administration).

Both objections, while not without merit, understate the fiscal opportunity that carbon pricing represents for Bangladesh. The European Union's Carbon Border Adjustment Mechanism (CBAM), which entered into transitional operation in 2023 and full operation in 2026, effectively imposes a carbon price on goods imported into the EU that are produced without a domestic carbon price in the country of origin. Bangladesh's export industries, when they ship goods to the EU, will face CBAM charges as soon as the mechanism covers their sectors.

The Principle of Fiscal Sovereignty in Climate Pricing, defined in the glossary of Part Six, holds that a country without a domestic carbon price cedes carbon pricing revenue to import-carbon-adjusting countries, making revenue-neutral domestic carbon pricing fiscally superior to absorbing external carbon adjustments. Applied to Bangladesh, this principle argues that Bangladesh should introduce a domestic carbon price, even a modest one, and design it so that CBAM charges against Bangladeshi exporters are credited against their domestic carbon price payment, preventing the double payment that would otherwise occur. The fiscal benefit is that the carbon revenue stays in Bangladesh's treasury rather than flowing to the EU's green fund.

A modest domestic carbon tax of USD 5 to 10 per ton of CO2 equivalent on industrial and energy users, introduced gradually over five years, could generate approximately Tk 5,000 to 10,000 crore annually at full implementation, a meaningful contribution to the revenue base that simultaneously creates incentives for energy efficiency investment and positions Bangladesh favorably for CBAM compliance. The revenue could be ring-fenced for a Climate Adaptation Investment Fund, providing a credible and self-replenishing financing mechanism for adaptation investment.

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53.4 Climate Finance Mobilization: Bangladesh's Access Challenges and Solutions

Bangladesh's access to international climate finance has been severely constrained by the administrative barriers of international climate funds. The Green Climate Fund (GCF), the largest dedicated climate finance facility, has complex accreditation requirements, lengthy project approval processes, and reporting demands that exceed the current capacity of Bangladesh's climate finance institutions. As of 2024, Bangladesh had received a fraction of the international climate finance that its climate vulnerability and development need would justify.

The Climate Finance Access Deficit is a new concept describing the gap between a country's notional entitlement to climate finance based on its vulnerability and emission profile and its actual access based on institutional capacity to navigate the international climate finance architecture. Bangladesh's Climate Finance Access Deficit is very large: estimates suggest that Bangladesh should be receiving USD 2 to 5 billion annually in international climate finance but is actually receiving a small fraction of that amount.

Closing the Climate Finance Access Deficit requires specific investments in accreditation infrastructure: building the environmental safeguards capacity within implementing agencies, strengthening the monitoring and evaluation systems for climate projects, training project development officers in GCF application procedures, and creating direct access accreditation for key national institutions including the Bangladesh Climate Change Trust Fund and the Palli Karma-Sahayak Foundation. These institutional investments have direct fiscal costs but generate returns in the form of unlocked climate finance that can substitute for domestic budget resources.

53.5 Bangladesh's Disaster Risk Reduction: From Reactive to Proactive Fiscal Management

Bangladesh has built, over several decades of hard experience with cyclones and floods, among the most effective disaster risk management systems of any low-income country. The cyclone preparedness program, the flood warning and evacuation infrastructure, and the post-disaster rapid response capacity have saved millions of lives and significantly reduced the per-event economic loss from major disasters.

However, Bangladesh's disaster fiscal management remains primarily reactive: resources are mobilized after disasters strike, through emergency supplementary spending, foreign assistance appeals, and development project reprogramming. A more proactive approach would involve pre-positioning fiscal resources against identified disaster risks, investing in the infrastructure that reduces damage (embankment maintenance, coastal shelter networks, drainage systems) as a deliberate fiscal strategy rather than an emergency response, and building the insurance and risk transfer mechanisms that allow fiscal risk to be shared with international financial markets.

Disaster Risk Financing Architecture is the systematic pre-design of the fiscal instruments that will be deployed at each stage of a disaster event: immediate emergency response (drawing the pre-funded reserve), short-term humanitarian relief (activating targeted cash transfer programs), medium-term reconstruction (accelerating pre-approved reconstruction project portfolios), and long-term recovery (mobilizing climate finance and development partner support). Bangladesh

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has elements of this architecture but lacks the formal design and institutional clarity that would allow it to operate efficiently and equitably.

53.6 Exam Questions: Chapter Fifty-Three

Questions for BEcon Examination

Define Climate-Integrated Fiscal Design and explain how it differs from conventional green budgeting. Identify three specific changes to Bangladesh's budget preparation process that would be required to fully implement Climate-Integrated Fiscal Design. (15 marks)

Explain Climate Fiscal Actuarialism. How would Bangladesh's medium-term fiscal framework look different if it incorporated actuarially estimated climate fiscal risks as projected liabilities? What would this imply for the required level of the climate fiscal reserve? (15 marks)

Apply the Principle of Fiscal Sovereignty in Climate Pricing to argue for the introduction of a domestic carbon tax in Bangladesh. Design a basic carbon tax structure for Bangladesh, specifying the rate, the coverage, the revenue use, and the transition mechanism. (15 marks)

Questions for BSS (Economics) Examination

Define the Climate Finance Access Deficit. Estimate Bangladesh's Climate Finance Access Deficit and identify the three most binding institutional barriers to closing it. Propose specific investments to address these barriers and estimate their cost. (15 marks)

Describe the concept of Disaster Risk Financing Architecture. Design a complete disaster risk financing architecture for Bangladesh, specifying the fiscal instrument for each stage of the disaster event cycle, the pre-positioned resource level, and the institutional triggers for activation. (20 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive Climate-Integrated Fiscal Strategy for Bangladesh covering the period 2026-2035. Your strategy should address: carbon pricing design; climate finance access improvement; climate risk actuarialism in budget planning; disaster risk financing architecture; and the political economy of transitioning from fossil fuel subsidies to renewable energy investment subsidies. Assess the net fiscal impact of your proposed strategy and its implications for Bangladesh's debt sustainability. (40 marks)

CHAPTER FIFTY-FOUR: BANKING SECTOR CRISIS, RESERVE MANAGEMENT, AND THE FISCAL-FINANCIAL INTERFACE

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54.1 A New Definition: Fiscal-Financial Contagion

Fiscal-Financial Contagion is the bidirectional propagation of stress between a country's banking sector and its public fiscal system, in which banking sector distress generates fiscal costs (through required recapitalization, guarantee payouts, and economic contraction) that worsen the fiscal position, and fiscal deterioration generates banking sector stress (through government bond price declines, reduced creditworthiness of government-related borrowers, and macroeconomic contraction reducing loan performance), creating a reinforcing feedback loop that can accelerate from manageable dysfunction to systemic crisis.

This concept, drawing on the academic literature that emerged from the European sovereign debt crisis of 2010-2014 and the work of economists including Brunnermeier, Langfield, Pagano, and Reis, is highly relevant to Bangladesh's current situation. Bangladesh's banking sector is characterized by a non-performing loan ratio of approximately 35 percent as of September 2025 according to the UN assessment, with state-owned banks carrying disproportionately large NPL burdens. The government is simultaneously the owner of the most stressed banks, the guarantor of their deposits, and the debtor whose bonds constitute a large share of bank assets.

This triangular relationship creates acute Fiscal-Financial Contagion risk. If state bank NPLs require recapitalization, the budget absorbs the cost. If recapitalization is insufficient and depositor confidence falls, the government may face demands for explicit deposit guarantees that create additional fiscal liabilities. If government bonds decline in value (as they would if fiscal credibility deteriorated), the banks' capital positions worsen further (since bonds are held as assets), requiring more recapitalization. The loop can be vicious.

54.2 Bangladesh Bank's Reserve Management and Its Fiscal Dimensions

Bangladesh Bank's management of foreign exchange reserves has direct and significant fiscal implications that are often inadequately appreciated in standard fiscal analyses. The reserve level determines the government's capacity to meet external debt service obligations in foreign currency without market-disrupting intervention, to maintain the exchange rate stability that keeps imported inflation under control, and to provide a buffer against the foreign exchange demand spikes associated with energy import cost increases or sudden stops in capital flows.

The foreign exchange reserve crisis of 2021 to 2023, in which Bangladesh's gross reserves fell from a peak of approximately USD 48 billion in August 2021 to below USD 25 billion in 2023, was not simply a monetary phenomenon. It had direct fiscal consequences: the taka depreciation of approximately 25 percent against the US dollar during this period increased the taka cost of external debt service by a corresponding amount, contributed to the inflationary spike that reached above 10 percent, and required the fiscal authorities to provide additional subsidies to insulate consumers from energy and food import price increases expressed in taka terms.

A new framework for understanding reserve management as a fiscal instrument is what this textbook terms the Reserve Fiscal Buffer Calculus: the systematic assessment of the fiscal cost of reserve inadequacy (measured as the additional subsidy, debt service, and macroeconomic stabilization cost borne by the budget when reserves fall below adequate levels) against the

opportunity cost of holding reserves (the interest rate differential between reserve return and domestic borrowing cost). This calculus reveals that for Bangladesh at its current level of energy import dependence and external debt exposure, maintaining reserves above 3 months of import cover is fiscally rational even if the immediate opportunity cost appears negative.

54.3 State-Owned Bank Governance as a Fiscal Issue

The governance failures in Bangladesh's state-owned banks, including Janata Bank, Agrani Bank, Rupali Bank, Sonali Bank, and BASIC Bank, represent one of the most costly recurring fiscal drains in the budget. These banks have required recapitalization from the budget on multiple occasions, consuming fiscal resources that could have been deployed for productive public investment.

The root cause of state-owned bank governance failure in Bangladesh is a well-documented political economy phenomenon: the appointment of bank boards and management by political authorities creates incentives for loan decisions that serve political relationships rather than commercial creditworthiness. When politically connected borrowers receive loans they cannot repay, the resulting NPLs are eventually absorbed by the public budget through recapitalization, making the budget effectively subsidize politically motivated credit allocation.

The resolution of this problem is fundamentally a governance reform challenge rather than a purely fiscal one. Professionalizing state bank board appointments through an independent nomination process, insulating credit decisions from political influence through strengthened internal credit governance, and creating credible regulatory enforcement mechanisms within Bangladesh Bank are the core reforms required. But each of these reforms has a fiscal dimension: building the regulatory capacity requires investment, the transition to professional governance requires severance of political relationships that currently have private value to the political actors who would need to approve the reform, and the NPL resolution process requires fiscal resources for bank recapitalization.

A new doctrine this situation supports is the Doctrine of Governance-Fiscal Simultaneity: the principle that in economies where governance failures are a major source of fiscal cost (through state enterprise losses, banking sector recapitalization, corruption-inflated procurement costs, and project implementation failures), governance reform is not a parallel track to fiscal reform but is the primary fiscal reform, and should be evaluated in the budget as a fiscal investment with quantifiable returns.

54.4 Digital Finance, Financial Inclusion, and the Revenue Base

Bangladesh's mobile financial services ecosystem, led by bKash, Nagad, and other platforms, represents a transformation in financial access that has both development dimensions and significant fiscal implications. As of 2025, mobile financial services had reached more than 60 percent of the adult population, bringing previously unbanked households into the formal payment system and creating a data trail of financial transactions that was previously invisible to tax authorities.

The fiscal implications of mobile financial services expansion are substantial. First, the formalization of transactions through digital payment rails creates a taxable record of economic activity that was previously untaxable because it occurred in cash. Small business owners who previously transacted exclusively in cash are now visible through their mobile banking records, enabling NBR to identify and register taxpayers who were previously outside the tax net entirely.

Second, the digital payment infrastructure creates the foundation for advanced revenue administration capabilities: automated sales reporting, real-time invoice matching, integration of payroll data with income tax declarations, and digital VAT filing that is dramatically cheaper and more accurate than paper-based compliance. The full fiscal potential of Bangladesh's digital finance ecosystem has not yet been exploited because NBR's systems are not yet sufficiently integrated with the financial data that mobile financial services platforms hold.

Third, digital financial inclusion enables more accurate and cost-effective social protection delivery, reducing the administrative overhead of cash transfer programs and improving targeting accuracy. When every transfer recipient has a mobile financial account, the cost of reaching them with emergency transfers in a crisis falls from potentially Tk 200 to 300 per beneficiary (for cash distribution through physical channels) to Tk 10 to 20 per beneficiary (for digital transfer), a dramatic reduction in program administration cost that effectively expands the reach of a given social protection budget.

54.5 The Government Securities Market and Domestic Financing Development

Bangladesh's government securities market, including Treasury bills (91-day, 182-day, 364-day) and Treasury bonds (2, 5, 10, 15, 20-year), provides the primary domestic borrowing mechanism for financing the budget deficit. The depth, efficiency, and investor base of this market determine how cheaply and how reliably the government can finance its deficit domestically without recourse to central bank monetary financing.

A developed government securities market with a broad and diversified investor base (commercial banks, insurance companies, provident funds, mutual funds, foreign portfolio investors, and eventually retail investors) provides multiple fiscal advantages: lower interest costs through competition among buyers, longer maturity financing that reduces rollover risk, a benchmark yield curve that enables private sector financing at lower cost, and a mechanism through which monetary policy signals are transmitted across the economy.

Bangladesh's government securities market is currently dominated by commercial bank buyers, particularly state-owned banks, which purchase treasury instruments primarily as a form of directed credit to the government rather than as an active investment decision. This concentration creates systemic risk (if banks' liquidity deteriorates, their demand for government securities falls, forcing interest rate increases or central bank purchases) and limits the diversification benefits of broad market participation.

The development of pension fund and insurance company investment in government securities, and eventually the opening of the government securities market to foreign portfolio investment with appropriate safeguards, represents a medium-term priority for Bangladesh's fiscal financing

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architecture. It requires regulatory reform, yield curve development, and market infrastructure investment, but the fiscal return in lower interest costs and greater financing stability is substantial.

54.6 Exam Questions: Chapter Fifty-Four

Questions for BEcon Examination

Define Fiscal-Financial Contagion and explain why Bangladesh's current banking sector-fiscal system configuration is particularly vulnerable to this phenomenon. Identify three specific policy interventions that would reduce Bangladesh's Fiscal-Financial Contagion risk. (20 marks)

Explain the Reserve Fiscal Buffer Calculus. Apply it to Bangladesh's current reserve situation and determine whether Bangladesh's current reserve level is fiscally optimal, deficient, or excessive. Justify your assessment with reference to Bangladesh's specific energy import and external debt profile. (15 marks)

What is the Doctrine of Governance-Fiscal Simultaneity? How does it apply to Bangladesh's state-owned bank governance problem? What is the approximate fiscal cost of state bank governance failure to Bangladesh's budget over the past decade? (12 marks)

Questions for BSS (Economics) Examination

Analyze the fiscal implications of Bangladesh's mobile financial services expansion. Identify three specific channels through which digital financial inclusion generates fiscal benefits and estimate the approximate magnitude of each channel's contribution to Bangladesh's fiscal position. (15 marks)

Describe the current structure of Bangladesh's government securities market. What are the three most important reforms needed to develop this market, and how would each reform improve Bangladesh's fiscal financing position? (15 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive Fiscal-Financial Sector Reform Agenda for Bangladesh. Your agenda should address: NPL resolution in state-owned banks and its fiscal cost; state bank governance reform and the Doctrine of Governance-Fiscal Simultaneity; digital finance integration with revenue administration; and government securities market development. For each element, specify the reform design, the fiscal cost, the fiscal return, and the political economy barriers. Estimate the net fiscal impact of the full agenda over a five-year horizon. (35 marks)

CHAPTER FIFTY-FIVE: DIGITAL ECONOMY, TECHNOLOGY TAXATION, AND THE NEW FRONTIER OF REVENUE

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55.1 A New Definition: The Digital Revenue Frontier

The Digital Revenue Frontier is the boundary of the taxable economy that expands as digital commerce, platform-mediated transactions, digital service delivery, and cryptocurrency-linked economic activity become larger shares of the economy, creating both new opportunities for revenue mobilization and new challenges for tax administration systems designed for a physical, place-based economy.

For Bangladesh's fiscal system, the Digital Revenue Frontier presents a growing challenge and a growing opportunity simultaneously. The opportunity lies in the rapid growth of Bangladesh's digital economy: its IT-enabled services sector, its e-commerce platforms, its gig economy (including the large and growing community of online freelancers whose earnings have made Bangladesh one of the top global recipients of freelancing income), and its fintech and mobile financial services sector together represent an economic space that is growing faster than the traditional economy but contributing disproportionately little to tax revenues.

The challenge lies in the inherent difficulty of taxing digital economic activity with tax administration systems designed for physical businesses. A digital service exported from Bangladesh (a software development project completed for a client in the United States, say) may generate income that is invisible to NBR unless the freelancer voluntarily discloses it, because the payment may arrive through international platforms like PayPal or Payoneer in ways that do not automatically trigger domestic banking system reporting. An e-commerce seller operating through a local platform may generate significant turnover while remaining below the formal VAT registration threshold.

55.2 The OECD Pillar Two Framework and Bangladesh's Fiscal Position

The OECD's Two-Pillar Solution for international corporate taxation, adopted in principle by more than 140 jurisdictions through the Inclusive Framework, represents the most significant reform of international tax rules in a century. Pillar One reallocates a portion of the taxing rights over large multinational corporations to the markets where their customers are located, rather than exclusively to where the corporations are based. Pillar Two establishes a global minimum corporate tax rate of 15 percent, ensuring that large multinational corporations pay at least this rate in every jurisdiction where they operate, regardless of how aggressive their tax planning.

For Bangladesh, the Pillar Two framework has potentially significant fiscal implications. Bangladesh currently offers corporate tax holidays of up to 10 years for investments in Economic Processing Zones and selected priority industries. Under Pillar Two rules, multinationals from countries that have implemented the framework (including the EU, the UK, and potentially India) will have their effective tax rate in Bangladesh topped up to 15 percent by their home country's tax authority, regardless of what Bangladesh charges. This means that tax holidays offered below 15 percent may no longer attract foreign investment as effectively as they previously did: if the investor pays 15 percent anyway (to their home country), there is no incentive gain from Bangladesh offering a lower rate.

This has a paradoxical fiscal benefit for Bangladesh: it can redesign its investment incentive system to replace below-15-percent tax holidays with other forms of support (infrastructure provision, skills training subsidies, logistics support, market access facilitation) that attract investment without forfeiting revenue, because the global minimum tax effectively neutralizes the incentive value of below-minimum-rate tax exemptions.

The Principle of Pillar-Two Fiscal Optimization holds that developing countries that have been competing for foreign investment through tax holidays below the global minimum rate should use the Pillar Two framework as an opportunity to redesign their investment incentive systems, eliminating fiscally costly below-minimum tax privileges and replacing them with non-tax incentives that attract investment at zero revenue cost. Bangladesh's Finance Division and NBR need to urgently complete a comprehensive review of the investment incentive framework through this lens.

55.3 E-Commerce Taxation in Bangladesh

Bangladesh's e-commerce sector has grown rapidly, with platforms like Daraz, Chaldal, Shajgoj, and numerous smaller platforms collectively processing hundreds of millions of transactions annually. The fiscal treatment of this sector has been a source of ongoing controversy, with NBR attempting to expand VAT coverage of digital transactions while platform operators argue that compliance burdens are excessive for the nascent sector.

A principle emerging from comparative experience with e-commerce taxation (drawing on the experience of the European Union's OSS scheme for digital services, India's equalization levy, and Singapore's reverse charge mechanism for business-to-consumer digital services) is what this textbook terms the Platform Fiscal Responsibility Principle: the allocation of tax collection and remittance obligations to digital platforms rather than to individual sellers on those platforms, recognizing that platforms have the system integration capabilities, the transaction data, and the compliance capacity that individual small sellers typically lack.

Applied to Bangladesh, the Platform Fiscal Responsibility Principle would require Daraz, Chaldal, and other major e-commerce platforms to automatically calculate and remit VAT on all transactions processed through their platforms, with the VAT cost passed through to the buyer and the platform acting as tax collector. This approach drastically reduces the compliance burden for individual sellers (who would no longer need to separately register and file VAT), concentrates compliance obligations at the platform level where they are most efficiently discharged, and generates revenue from the large number of small sellers who currently operate below or outside the VAT threshold.

India has implemented a version of this approach through the Tax Collection at Source mechanism for e-commerce operators since 2021, with significant revenue generation results. Bangladesh's implementation would need to be adapted to its own digital payment infrastructure and business environment, but the basic model is directly applicable.

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55.4 Taxation of the Gig Economy: Freelancers, Platforms, and the Income Tax Gap

Bangladesh's freelancing community, estimated at approximately 500,000 to 700,000 active freelancers earning income from international platforms including Upwork, Fiverr, Toptal, and others, represents a significant and growing component of the digital economy that is substantially undertaxed.

Freelance income remitted through official banking channels is subject to income tax in principle, but in practice compliance is low: many freelancers are unaware of their tax obligations, NBR has limited capacity to identify non-compliant freelancers, and the complexity of computing and filing income taxes on irregular freelance income discourages voluntary compliance even among those who are aware of their obligations.

A new institutional design that would address this without punishing the sector's growth is what this textbook terms the Withholding-at-Inflow Mechanism: a requirement that banks and mobile financial services providers apply a modest income tax withholding rate (say 5 percent on initial receiving, creditable against final tax liability) to all incoming international payments identified as freelance income through the central bank's inward remittance classification system. This mechanism collects a portion of tax at the point where the income enters the banking system, before it can be spent or informally transferred, while simultaneously creating a compliance record for each recipient that enables NBR to follow up with full tax assessment.

A withholding-at-inflow mechanism of 5 percent applied to estimated freelance inflows of USD 500 to 700 million annually would generate Tk 250 to 350 crore per year, with the potential for significantly more as the sector grows and compliance improves. The mechanism would need to be accompanied by simplified freelancer tax filing, educational outreach, and clear guidance on deductible expenses to ensure that freelancers are not overtaxed on gross income rather than net income.

55.5 Digital Public Services and the Revenue-Service Compact

An underappreciated dimension of digital economy fiscal policy is the relationship between digital public service delivery and tax compliance. When governments offer high-quality, convenient digital public services (vehicle registration, birth certificates, land records, business licenses, social protection access) that are accessible through a unified digital identity, they create a compelling incentive for individuals and businesses to formalize their relationship with the state.

The Concept of the Revenue-Service Digital Compact holds that the expansion of digital public services, funded by the budget, creates self-reinforcing fiscal returns: citizens and businesses who use digital services generate digital transaction records that are visible to tax authorities, thereby expanding the taxable base; the revenue from the expanded base funds better digital services, which attract more users; and the process of registering for digital services creates the national identification infrastructure that enables more accurate and efficient tax administration.

Bangladesh's digital public service ecosystem, centered on the National ID system and the a2i (Access to Information) program, has developed significantly since 2010. The integration of public services with the tax system, through NID-linked tax identification and cross-matching of service usage data with tax records, has not yet been fully exploited. The complete implementation of the NID-tax linkage, required by NBR but incompletely enforced, would immediately expand the population of identifiable taxpayers and create the data foundation for intelligent compliance targeting.

55.6 Exam Questions: Chapter Fifty-Five

Questions for BEcon Examination

Define the Digital Revenue Frontier and explain the two sides of the fiscal challenge and opportunity it presents for Bangladesh. Identify three specific categories of digital economic activity that are currently undertaxed in Bangladesh and propose the most appropriate tax instrument for each. (20 marks)

Explain the Principle of Pillar-Two Fiscal Optimization. How should Bangladesh redesign its investment incentive framework in light of the global minimum corporate tax? What fiscal savings could this redesign generate, and what non-tax incentives should replace the abandoned tax holidays? (15 marks)

What is the Platform Fiscal Responsibility Principle? Design a specific e-commerce VAT compliance mechanism for Bangladesh based on this principle, drawing on the Indian TCS experience. Estimate the additional revenue this mechanism would generate in its first full year of operation. (12 marks)

Questions for BSS (Economics) Examination

Analyze the income tax compliance gap among Bangladesh's freelancing community. Design a Withholding-at-Inflow Mechanism specifically adapted to Bangladesh's banking and mobile financial services infrastructure, specifying the withholding rate, the crediting mechanism, the simplified filing procedure, and the expected revenue impact. (20 marks)

Explain the Concept of the Revenue-Service Digital Compact. How would the complete integration of Bangladesh's NID system with tax administration generate fiscal returns? Identify the specific system integration investments required and estimate their cost and the revenue return they would generate. (15 marks)

Questions for MSS (Economics) Examination

Construct a comprehensive Digital Revenue Strategy for Bangladesh covering the period 2026-2031. Your strategy should address: e-commerce VAT compliance; freelancer income tax; digital services taxation (including international platform taxation); cryptocurrency regulation and revenue; and Pillar-Two-aligned investment incentive reform. For each element, provide the legal framework required, the NBR institutional capacity needed, the implementation timeline,

and the revenue projection. Critically evaluate the political economy barriers to each element and propose a sequenced implementation strategy that accounts for these barriers. (40 marks)

CHAPTER FIFTY-SIX: THE DRAFT BUDGET FY2026-27: A COMPREHENSIVE TECHNICAL ASSESSMENT

56.1 The Context: A Budget Under Triple Pressure

The budget for FY2026-27, currently in preparation as this text is finalized, is being constructed under conditions of triple pressure that make it arguably the most consequential annual fiscal document in Bangladesh's post-independence history. The first pressure is the LDC graduation deadline of November 24, 2026, which falls midway through the fiscal year: the budget must simultaneously manage the transition and demonstrate to international partners that Bangladesh is on a credible fiscal path to post-preference sustainability. The second pressure is the compound energy price shock from the 2026 Middle East conflict, which has elevated subsidy costs, threatened the foreign exchange position, and created inflationary pressure that the budget must manage without destroying economic activity. The third pressure is the NBR revenue crisis: the National Board of Revenue recorded a deficit of nearly Tk 100,000 crore in the first nine months of the current fiscal year, the highest on record, surpassing last year's full-year shortfall of Tk 92,626 crore Bd-pratidin.

Against this backdrop, the government is preparing a budget of nearly Tk 900,000 crore for the 2026-27 fiscal year Bd-pratidin. Initial projections from the Finance Division put the proposed budget at around Tk 930,000 crore, with a deficit of approximately Tk 235,000 crore. Bd-pratidin The scale of the proposed budget represents an approximately 18 percent increase over the FY2025-26 budget, substantially above the historical average annual increase, and raises immediate questions about fiscal realism.

56.2 Revenue Architecture of the Draft Budget: Assessment

Total revenue income is likely to be set at around Tk 636,000 crore, of which revenue sector earnings may account for Tk 571,000 crore (8.4 percent of GDP), with the National Board of Revenue expected to collect nearly Tk 550,000 crore in taxes. Bd-pratidin

The revenue target of Tk 550,000 crore for NBR is, by any honest assessment, extremely ambitious. The Centre for Policy Dialogue and independent economists have consistently argued that NBR's annual revenue targets in recent years have exceeded realistic collection capacity. NBR has begun pre-budget consultations with economists, business leaders and other stakeholders ahead of the 2026-27 fiscal plan, while the finance ministry drafts the framework. Bonikbarta The consultations reveal deep concern about the feasibility of the revenue target given the current collection trajectory.

Applying the Principle of Fiscal Authenticity to the revenue architecture, the relevant question is whether the Tk 550,000 crore NBR target represents a genuinely achievable projection or an

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aspirational figure that will systematically miss, as has been the consistent pattern of Bangladesh's recent budget history. The evidence from the current fiscal year is not encouraging: NBR collected Tk 2.87 trillion against a target of Tk 3.85 trillion in the first nine months to March, a shortfall of Tk 979.9 billion. Bonikbarta Extrapolating this trajectory to a full year implies NBR collection of approximately Tk 3.83 to 3.90 trillion in FY2025-26, against a target of Tk 5.03 trillion.

For the FY2026-27 target to be realistic, NBR would need to increase its collection by approximately 40 to 45 percent over FY2025-26 actual collection. This is not impossible in principle: digital revenue reforms, if completed and operative in FY2026-27, could generate significant incremental collection. But achieving a 40 to 45 percent increase in a single year would require an institutional transformation that has not yet occurred and cannot be assumed on the basis of current reform momentum.

A realistic revenue target for FY2026-27, consistent with the Principle of Fiscal Authenticity and the Principle of Preparatory Realism, would set NBR collection at approximately Tk 430,000 to 450,000 crore, representing a 10 to 15 percent increase over FY2025-26 actual collection achievable through incremental compliance improvement, the digital VAT system expansion, and modest rate adjustments, without requiring the unrealistic institutional transformation that a 40 percent increase would demand.

This realistic revenue assessment immediately reveals the central challenge of the FY2026-27 budget: with a Tk 100,000 to 120,000 crore gap between the fiscally authentic revenue target and the stated target, the budget's financing arithmetic will require either significant ADP compression in implementation, additional borrowing above the stated targets, or central bank accommodation of the fiscal shortfall. All three outcomes have occurred in Bangladesh's recent budget history, and all three are fiscally costly.

56.3 Expenditure Architecture: Priorities, Proportions, and Assessment

The proposed expenditure structure reflects the fiscal pressures analyzed across this Part. Around Tk 259,000 crore, nearly 27.85 percent of the total budget, is likely to be allocated to interest payments and subsidies. Interest payments alone may reach Tk 142,000 crore, including Tk 115,000 crore for domestic debt and Tk 27,000 crore for external obligations. Subsidy allocations are also projected to remain high, with Tk 37,000 crore for electricity, Tk 6,500 crore for LNG, Tk 27,000 crore for fertilizer and Tk 9,600 crore for food assistance programmes. Bd-pratidin

The interest payment figure of Tk 142,000 crore is deeply revealing. It represents approximately 37 to 38 percent of the fiscally realistic revenue estimate, meaning that more than one third of every taka of tax revenue collected will be used to service past borrowing rather than to fund current public services or investment. This is the manifestation of the Crowding-Out Spiral described in Chapter Fifty-Two: the debt service burden is crowding out the productive expenditure that would generate future growth and future revenue.

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The subsidy figures deserve particular attention through the lens of the Principle of Subsidy-to-Investment Fiscal Rotation. The combined electricity, LNG, and fertilizer subsidy of approximately Tk 71,000 crore is structurally regressive: electricity subsidies disproportionately benefit urban and peri-urban households with higher consumption levels, fertilizer subsidies are captured partly by larger agricultural operations, and food assistance programs, while more targeted, have coverage gaps that exclude many of the most vulnerable. A targeted reform that replaced untargeted electricity and fertilizer subsidies with a Universal Basic Subsidy Transfer to the bottom 30 percent of the income distribution would free approximately Tk 30,000 to 40,000 crore for productive reallocation while improving distributional outcomes.

The Annual Development Programme may be set at around Tk 253,000 crore, nearly Tk 23,000 crore higher than the current fiscal year. Bd-pratidin This proposed increase, while modest in percentage terms, raises the quality question that has dominated ADP policy debates for years. In a fiscal environment characterized by severe revenue shortfalls and high interest costs, increasing the ADP size without a commensurate improvement in ADP implementation quality will generate additional construction of the half-finished project inventory that represents one of the most wasteful features of Bangladesh's public investment management.

56.4 The ADP: Quality Reform Over Size Expansion

The most important fiscal argument for FY2026-27 is not about the size of the ADP but about its composition and implementation quality. Years of research by the Implementation Monitoring and Evaluation Division, the Centre for Policy Dialogue, and the Bangladesh Institute of Development Studies consistently reveal the same pattern: the ADP contains too many projects (over 1,500 in recent years), too many of which are inadequately prepared (feasibility studies of insufficient quality), inadequately funded (annual allocations too small to make visible progress on multi-year projects), and inadequately supervised (too few qualified project directors and oversight staff relative to portfolio size).

The new concept of the ADP Quality Compression Principle holds that reducing the number of ADP projects while increasing the per-project allocation and supervision intensity generates better fiscal returns than expanding the project number. A lean, well-funded, and well-supervised project portfolio of 800 to 1,000 projects would almost certainly generate higher economic returns per taka of ADP allocation than the current bloated portfolio, because implementation bottlenecks would be reduced, economies of continuous construction would be captured, and supervision quality would improve.

The FY2026-27 budget should prioritize explicit project count reduction, not as a cost-cutting measure but as a quality improvement strategy, and the savings from project number reduction should be reinvested in project preparation quality (feasibility, design, environmental assessment) for the remaining projects. This is a budget reform that costs little in fiscal terms but requires strong political will to resist the pressure from constituencies with projects in the existing ADP portfolio.

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56.5 Social Protection: Between Ambition and Coverage

The social protection allocation in the proposed FY2026-27 budget continues the pattern of expanding nominal allocations without commensurate expansion of genuine coverage depth and quality. Bangladesh's social protection programs have grown in number and in aggregate allocation but have not achieved the seamless, non-duplicative, and genuinely inclusive coverage that the Doctrine of Non-Negotiable Human Capital demands.

A new Concept of Social Protection Fiscal Consolidation holds that the right fiscal strategy for social protection is not to add new programs with each budget but to rationalize the existing program portfolio through the National Social Registry, eliminating duplicative programs, merging programs serving overlapping populations, and using the consolidated savings to expand coverage and benefit levels for the remaining programs. This rationalization approach generates fiscal efficiency gains (lower administrative overhead per beneficiary) while improving welfare outcomes (higher benefit levels for the most vulnerable rather than thin coverage spread too widely).

Specifically, for FY2026-27, the budget should announce a firm commitment to completing the National Social Registry within 18 months, with a budget allocation sufficient to fund the implementation (estimated at approximately Tk 500 to 1,000 crore), in exchange for a commitment to rationalize the social protection program portfolio by 25 to 30 programs in FY2027-28 on the basis of Registry data. This sequenced reform approach is more fiscally credible than announcing simultaneous program rationalization without the data infrastructure needed to implement it equitably.

56.6 Why the Draft Budget Is Reasonable: A Qualified Defense

The draft FY2026-27 budget, despite the concerns detailed above, represents a reasonable fiscal response to an extremely difficult environment, provided certain conditions hold. A defense of its reasonableness must be both honest about its limitations and fair about the constraints within which it operates.

The budget is reasonable in its acknowledgment that Bangladesh cannot return to the expansionary budgeting of the 2015 to 2022 period. The fiscal consolidation trajectory of the FY2025-26 budget, which reduced the deficit to approximately 3.6 percent of GDP, is broadly maintained in the FY2026-27 framework. This is appropriate given the IMF program conditionalities and the genuine fiscal sustainability concerns associated with rapid deficit expansion.

The budget is reasonable in its continued prioritization of human capital spending. Education and health allocations, while still inadequate relative to GDP benchmarks, are maintained or modestly increased in real terms, consistent with the Doctrine of Non-Negotiable Human Capital. The political pressure in a fiscal consolidation environment to cut social spending is resisted, at least at the level of budget announcement.

The budget is reasonable in its recognition of the LDC graduation challenge: its investment in export diversification programs, its support for the Smooth Transition Strategy implementation, and its signaling to international partners of Bangladesh's fiscal discipline are all coherent with the graduation navigation challenge analyzed in Chapter Fifty-Two.

The budget is reasonable in its engagement with revenue reform: the consultation process with NBR and business stakeholders, the announced intention to expand digital tax administration, and the signals of investment incentive rationalization are consistent with the medium-term revenue mobilization imperative.

Where the budget's reasonableness is most qualified is in its revenue target optimism. The stated NBR target of Tk 550,000 crore requires a degree of institutional transformation that cannot be assumed on the basis of current implementation momentum. A more authentic budget would acknowledge this gap explicitly, present a realistic base-case revenue projection alongside the ambitious target, and specify the contingency measures that would be activated if revenue collection falls short.

A new principle for evaluating budget reasonableness that this analysis suggests is the Principle of Honest Ambition: the recognition that a budget can be simultaneously ambitious in its long-term direction and honest in its short-term projections, and that this combination is more fiscally responsible, more credible to international partners, and ultimately more beneficial to long-run fiscal institution-building than a budget that is ambitious in both direction and short-term projection regardless of evidence.

56.7 A New Doctrine: The Doctrine of Calibrated Fiscal Realism

The Doctrine of Calibrated Fiscal Realism holds that the appropriate standard for evaluating a national budget in a crisis-prone, resource-constrained developing economy is not whether it meets the standards of the most advanced fiscal systems (which represent the destination, not the starting point) but whether it honestly represents the country's fiscal situation, identifies its most pressing challenges with clarity and rigor, deploys available fiscal instruments in directions consistent with credible improvement in fiscal performance, and builds the institutional foundations for fiscal transformation across the medium term, while resisting both the fatalism that accepts poor fiscal performance as permanent and the utopianism that sets impossible targets and then fails to achieve them.

By this standard, the FY2026-27 budget is a reasonable document in its strategic direction while falling short in its short-term revenue realism. The task for Bangladesh's fiscal authorities, civil society analysts, and parliamentary overseers is to hold the budget to the standard of Calibrated Fiscal Realism not just at the point of announcement but throughout the fiscal year, insisting on timely and transparent reporting of revenue performance, ADP implementation progress, and social protection coverage expansion.

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56.8 A Comprehensive Proposed Budget Framework for FY2026-27

This section presents a comprehensive proposed budget framework that this textbook's analysis recommends for FY2026-27, organized across six dimensions: total size, revenue architecture, development investment, social protection, debt management, and crisis contingency.

Total Size: The recommended total budget size is Tk 850,000 crore, approximately Tk 80,000 crore below the stated proposal, reflecting the application of Calibrated Fiscal Realism to the revenue reality. This size is consistent with a deficit of approximately 3.8 to 4.0 percent of GDP, modestly above the FY2025-26 target but justified by the graduation transition costs and energy price shock adjustment needs.

Revenue Architecture: NBR target should be set at Tk 460,000 crore (realistic) with a stretch target of Tk 500,000 crore (achievable if digital reform proceeds on schedule), plus non-NBR revenue of Tk 85,000 crore and external financing of Tk 60,000 crore. The gap of approximately Tk 245,000 crore from total spending represents the deficit to be financed by domestic borrowing of Tk 120,000 crore and external borrowing of Tk 125,000 crore, consistent with debt sustainability analysis.

Development Investment: ADP of Tk 230,000 crore, with a mandatory project count reduction to 1,000 projects and an increase in per-project average allocation. Priority sectors: climate adaptation infrastructure (15 percent of ADP), energy transition (12 percent), export diversification and industrial upgrading (10 percent), education quality infrastructure (10 percent), rural connectivity (10 percent), digital government infrastructure (8 percent), and health system strengthening (7 percent). Remaining 28 percent for other essential infrastructure and ongoing programs.

Social Protection: Tk 75,000 crore allocated to social protection, with Tk 5,000 crore earmarked for the National Social Registry completion, Tk 15,000 crore for expanded unconditional cash transfer coverage reaching 12 million households, and Tk 10,000 crore for the new targeted energy subsidy replacement mechanism that protects low-income consumers from electricity price normalization.

Debt Management: Commit to no new project financing at above-LIBOR-plus-3-percent interest rates; begin negotiation with Japan and Korea for maturity extension on infrastructure project loans; publish a first annual Public Debt Sustainability Report alongside the budget documents; establish a formal 12-month advance planning calendar for external debt rollovers.

Crisis Contingency: Establish a Fiscal Crisis Reserve of Tk 10,000 crore, funded by a levy on mobile financial transaction volumes (0.01 percent of transaction value) and budget transfers from windfall months of NBR revenue. Pre-authorize emergency energy subsidy supplementary spending of up to Tk 20,000 crore triggered by crude oil prices exceeding USD 120 per barrel for more than 60 days.

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56.9 Reasonableness Assessment: Applying the Doctrines

Applying the analytical doctrines developed across this textbook to the assessment of the FY2026-27 budget yields the following evaluations.

The Principle of Fiscal Authenticity: The budget fails this principle at the revenue projection level, setting targets substantially beyond realistic institutional capacity. It partially satisfies this principle at the expenditure level, where allocations are broadly consistent with stated priorities. Recommendation: revise revenue target downward and adopt scenario-based revenue presentation.

The Doctrine of Layered Fiscal Sovereignty: The budget adequately addresses the constitutional layer, the macroeconomic layer, and the international political-economic layer (IMF conditionalities). It inadequately addresses the epistemic layer: key budget assumptions about GDP growth (5.5 percent), inflation decline (toward 6.5 percent), and remittance growth rely on projections that are more optimistic than IMF and World Bank forecasts. Recommendation: adopt more conservative macroeconomic assumptions and present sensitivity analysis.

The Principle of Non-Negotiable Human Capital: The budget broadly satisfies this principle for education and social protection nominal allocations. It falls short on health, where the proposed allocation remains below 1 percent of GDP. Recommendation: increase health allocation to at least 1.5 percent of GDP, financed by a modest reduction in interest payment management through debt restructuring gains.

The Doctrine of Calibrated Fiscal Realism: The budget partially satisfies this doctrine in its strategic direction (consolidation, human capital commitment, graduation management) but falls short in its revenue projection honesty. Recommendation: apply the Doctrine more rigorously to revenue presentation while maintaining the strategic direction.

The Philosophy of Fiscal Becoming: The budget contains elements of a genuine trajectory toward higher fiscal capacity (NBR reform commitment, digital infrastructure investment, social registry funding), but these elements are underfunded relative to what genuine institutional transformation requires. Recommendation: protect reform investment allocations as the highest-priority non-negotiable items in any mid-year fiscal adjustment.

56.10 Exam Questions: Chapter Fifty-Six

Questions for BEcon Examination

Present and evaluate the proposed FY2026-27 budget framework presented in this chapter. Is it fiscally sustainable by IMF and World Bank debt sustainability criteria? Is it socially adequate by the standards of the Doctrine of Non-Negotiable Human Capital? Identify the two most important risks to its successful implementation. (20 marks)

What is the Doctrine of Calibrated Fiscal Realism? Apply it to evaluate the stated revenue target of Tk 550,000 crore for NBR in FY2026-27. Is this target consistent with the doctrine? What

target would be consistent, and what would be the budget implications of adopting a realistic target? (20 marks)

Define the Principle of Honest Ambition. How does it differ from the Principle of Fiscal Authenticity? Apply both principles simultaneously to the FY2026-27 revenue architecture and explain what specific changes each principle would require. (15 marks)

Questions for BSS (Economics) Examination

How should the FY2026-27 budget handle the energy price shock from the Middle East conflict? Design a specific contingency mechanism within the budget framework, consistent with the Doctrine of Staged Fiscal Crisis Response, that preserves fiscal stability while providing the flexibility to respond to an adverse energy price scenario. (20 marks)

Explain the ADP Quality Compression Principle. What institutional changes within the FY2026-27 budget cycle would improve ADP implementation quality rather than simply adjusting ADP size? How would these changes be reflected in the budget document? (15 marks)

Evaluate the social protection architecture proposed in the alternative budget framework presented in Section 56.8. Is the concept of Social Protection Fiscal Consolidation achievable within the FY2026-27 budget cycle, or does it require a longer institutional timeline? What is the minimum institutional investment required to begin the consolidation process? (15 marks)

Questions for MSS (Economics) Examination

Critically evaluate the proposed FY2026-27 budget framework against the standards of: (a) fiscal sustainability using debt sustainability analysis methodology; (b) social adequacy using the Capability-Centered Fiscal Design framework; (c) the Principle of Fiscal Authenticity applied to revenue projections; (d) the Philosophy of Fiscal Becoming applied to institutional reform investment; and (e) the Doctrine of Calibrated Fiscal Realism applied to the overall budget architecture. For each standard, identify the specific gaps in the proposed budget and the modifications you would recommend to close those gaps. Specify the fiscal cost or saving of each recommended modification and demonstrate that the modified budget remains within debt sustainability limits while improving social and institutional outcomes. (40 marks)

CONCLUDING SYNTHESIS OF PART SEVEN

Part Seven has moved through nine interconnected chapters that together constitute a comprehensive treatment of Bangladesh's fiscal system in global context, examining how international crises transmit fiscal pressure, how other countries have organized their budget systems in instructive ways, how specific current crises (energy shock, LDC graduation, climate emergency, banking sector stress, digital economy challenge) reshape the fiscal landscape, and how these pressures converge on the specific technical and philosophical challenges of the FY2026-27 budget.

Several themes run through all nine chapters and deserve explicit articulation as this Part concludes.

The first theme is the inseparability of institutional and fiscal reform. Across every chapter, the analysis reveals that the binding constraints on Bangladesh's fiscal performance are not primarily financial but institutional: the weakness of revenue administration, the fragility of social protection delivery, the poor quality of public investment management, the governance failures in state-owned banks, and the inadequate capacity to navigate the international climate and trade finance architectures. Money is necessary but never sufficient; institutions are the necessary precondition for money to do its intended work.

The second theme is the compound nature of Bangladesh's current challenges. The energy shock, the LDC graduation, the banking sector crisis, the revenue shortfall, and the inflationary pressure are not independent events to be managed sequentially; they interact and amplify each other. An analytically sophisticated fiscal response must address their interactions explicitly rather than treating each in isolation.

The third theme is the existence of a genuine window of opportunity within the crisis. The July 2024 political transition, the IMF engagement, the LDC graduation pressure, and the growing sophistication of Bangladesh's civil society fiscal monitoring community together create conditions in which transformational fiscal reform is more politically feasible than in normal times. Whether this window is used for institutional construction or squandered on political management of the status quo is the most consequential fiscal policy choice Bangladesh faces in the coming years.

The fourth theme is the non-negotiability of human capital investment. Across every crisis and every fiscal constraint analysis, the conclusion is the same: the investment in primary education quality, preventive health, early childhood development, and social protection for the extreme poor cannot be deferred without imposing compounding welfare costs that exceed the fiscal savings. This is not sentiment; it is arithmetic.

The fifth and final theme is hope, grounded in evidence. Bangladesh's fiscal system is not where it needs to be. But the distance between where it is and where it needs to be is navigable, given the right institutional choices, the right political commitment, and the right intellectual frameworks. The students engaging with this textbook are the generation that will determine whether that navigation succeeds.

APPENDIX TO PART SEVEN: GLOSSARY OF NEW TERMS AND CONCEPTS

The following new terms, principles, doctrines, philosophies, and concepts have been introduced in Part Seven of this textbook:

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Fiscal Shockwave: The propagating pattern of disruption by which an external event transforms itself at each layer of economic transmission into a specific category of fiscal pressure requiring a distinct policy instrument.

Doctrine of Staged Fiscal Crisis Response: The organizational principle that budget responses to international crises should be structured across four stages: Early Warning and Assessment, Adaptive Fiscal Adjustment, Structural Recalibration, and Resilience Building.

Principle of Crisis-Adjusted Fiscal Authenticity: The enhanced obligation of budget transparency during identified crisis periods, requiring scenario-based projections, explicit acknowledgment of transmission channels, and specification of contingency instruments.

Fiscal Shockwave Quantification Protocol: The five-stage analytical process for measuring international crisis fiscal impact: Event Identification and Channel Mapping, Transmission Velocity Assessment, Fiscal Cost Quantification, Policy Option Costing, and Institutional Readiness Assessment.

Principle of Institutional Sequencing in Fiscal Reform: The recognition that desirable fiscal institutional features must be adopted in a sequence that builds each capability on the foundation of preceding institutional development.

Doctrine of Crisis as Fiscal Founding Opportunity: The principle that political and institutional crises can create space for fiscal institutional reform that would be impossible in normal times by destroying vested interests and existing institutional inertia.

Fiscal Investment Credibility Premium: The fiscal value of a government's capacity to make long-term fiscal commitments, particularly regarding investment incentive stability, that investors find credible.

Principle of Subsidy-to-Investment Fiscal Rotation: The systematic replacement of untargeted commodity subsidies with targeted social protection and productive public investment, improving both efficiency and equity while reducing fiscal vulnerability.

Doctrine of Fiscal Compact Sequencing: The principle that the fiscal compact between state and citizens is strengthened by visible improvement in service quality that demonstrates tax-to-public-value conversion rather than by ambitious coverage declarations.

Fiscal Technology Leapfrogging: The concept that developing economies can bypass intermediate stages of fiscal infrastructure development by adopting frontier digital technologies directly.

Energy Fiscal Sovereignty: The degree to which a national fiscal system can make energy-related budget decisions independently of international energy market price movements.

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Reserve Fiscal Buffer Calculus: The systematic assessment of the fiscal cost of reserve inadequacy against the opportunity cost of holding reserves, enabling determination of the fiscally optimal reserve level.

Pandemic Fiscal Resilience: The capacity of a national fiscal system to absorb the compound shock of a major infectious disease outbreak without catastrophic fiscal distress or welfare-reducing expenditure cuts.

Principle of Health Fiscal Multiplexing: The recognition that public health investments must be evaluated against their multiple simultaneous uses across health, education, economic productivity, and fiscal revenue dimensions.

Three-Layer Health Fiscal Assessment: Evaluation of the health budget across Catastrophic Illness Protection, Preventive and Primary Health Infrastructure, and Emergency and Specialized Capacity.

Cross-Sector Fiscal Synergy Matrix: Systematic accounting of the second-order fiscal returns that flow from investments in one sector to outcomes in other sectors.

Compound Graduation Fiscal Shock: The full ensemble of fiscal pressures simultaneously generated by LDC graduation, including preference revenue erosion, concessional finance transition, subsidy discipline constraints, TRIPS compliance costs, aid architecture shifts, and political economy adjustment costs.

Principle of Standards-Trade Fiscal Leverage: The recognition that investments in governance, labor, and environmental standards generate fiscal returns through trade preference preservation that may substantially exceed their direct costs.

Fiscal Diversification Dividend: The discounted present value of incremental fiscal revenues generated over a 10-year horizon by a unit of public investment in export diversification.

Doctrine of Fiscal-Financial System Coherence: The principle that a government cannot pursue fiscal sustainability in isolation from its financial sector governance.

Climate-Integrated Fiscal Design: The systematic incorporation of climate risk assessment, adaptation investment planning, and environmental price signal design into every layer of the national budget process.

Climate Fiscal Actuarialism: The application of actuarial methods to fiscal planning of climate-related costs, enabling advance provisioning for expected climate fiscal liabilities.

Platform Fiscal Responsibility Principle: The allocation of tax collection and remittance obligations to digital platforms rather than to individual sellers, concentrating compliance obligations where institutional capacity is highest.

Withholding-at-Inflow Mechanism: A requirement that banks apply a creditable income tax withholding rate to incoming international payments identified as freelance income, collecting a portion of tax at the point of entry into the banking system.

Revenue-Service Digital Compact: The self-reinforcing relationship in which digital public services generate transaction records that expand the taxable base, the revenue from which funds better digital services, attracting more users and further expanding the base.

Principle of Pillar-Two Fiscal Optimization: The principle that developing countries should redesign their investment incentive systems to eliminate below-minimum tax privileges neutralized by the global minimum tax and replace them with non-tax incentives at zero revenue cost.

Fiscal-Financial Contagion: Bidirectional propagation of stress between a country's banking sector and its public fiscal system through reinforcing feedback loops.

Doctrine of Governance-Fiscal Simultaneity: The principle that in economies where governance failures generate major fiscal costs, governance reform is the primary fiscal reform and should be evaluated as a fiscal investment with quantifiable returns.

ADP Quality Compression Principle: The principle that reducing the number of ADP projects while increasing per-project allocation and supervision intensity generates better fiscal returns than expanding project numbers.

Social Protection Fiscal Consolidation: The fiscal strategy of rationalizing the social protection program portfolio through registry-based identification of overlap and duplication, redirecting the administrative savings to expand coverage and benefit levels.

Doctrine of Calibrated Fiscal Realism: The standard that evaluates a national budget by whether it honestly represents the country's fiscal situation, identifies challenges with rigor, deploys available instruments in credible improvement directions, and builds institutional foundations for fiscal transformation, resisting both fatalism and utopianism.

Principle of Honest Ambition: The recognition that a budget can be simultaneously ambitious in its long-term direction and honest in its short-term projections, and that this combination is more fiscally responsible and ultimately more beneficial to institution-building than uniform ambition regardless of evidence.

PART EIGHT: INSTITUTIONAL TRANSFORMATION, DEEP FISCAL INVESTIGATION, ACCOUNTABILITY ARCHITECTURE, AND THE COMPREHENSIVE ROADMAP TO BANGLADESH'S FISCAL SOVEREIGNTY

Preface to Part Eight

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Part Eight arrives at the deepest layer of the analytical architecture this textbook has been constructing across seven preceding parts. Where earlier parts built the theoretical foundations, traced the historical lineage, examined the technical methodology, dissected the sectoral allocations, investigated the comparative global dimensions, and mapped the crisis response landscape, Part Eight turns the lens inward, training a sustained and unflinching beam of intellectual attention on the institutional machinery, the accountability failures, the structural controversies, and the reform architecture that together determine whether Bangladesh's fiscal system can evolve from a system of fiscal performance anxiety into a system of genuine fiscal sovereignty.

The questions this part asks are not comfortable ones. Why does a country that has sustained economic growth rates above 6 percent for more than a decade still collect only 7 to 8 percent of its GDP as tax revenue? Why does a government that genuinely cares about human development still underfund public health so severely that more than 68 percent of Bangladeshis pay for medical care entirely from their own pockets? Why does a country with 170 million people, 3.5 million registered taxpayers, and an informal economy employing 85 percent of the workforce face a fiscal reform agenda that has been on every government's list for forty years and has been systematically deferred on every budget?

The answers to these questions require deep investigation: into the sociology of fiscal institutions, the political economy of reform resistance, the behavioral architecture of compliance culture, the philosophical underpinnings of what a just fiscal state owes its citizens, and the technical architecture of what the next budget must look like if it is to be both ambitious and credible. Part Eight works through all of these dimensions, chapter by chapter, building toward the central intellectual proposition of this entire textbook: that Bangladesh's fiscal future is not simply a technical problem awaiting the right policy lever, but a civilizational challenge requiring simultaneous transformation of institutions, norms, capacities, and political will.

The chapters that follow are organized around eight major analytical domains: the revenue administration revolution; deep investigation into fiscal leakage and accountability failures; the banking sector's interaction with fiscal risk; public health financing architecture; education finance and the learning outcome crisis; the fiscal sociology of inequality; the comprehensive architecture of the Draft Budget FY2026-27; and the philosophical, empirical, and technical defense of why that draft budget represents not just a fiscal document but a statement of what Bangladesh is capable of becoming.

CHAPTER FIFTY-SEVEN: THE REVENUE ADMINISTRATION REVOLUTION: NBR REFORM, INSTITUTIONAL REDESIGN, AND THE POLITICAL ECONOMY OF FISCAL MODERNIZATION

57.1 A New Definition: Revenue Administration as the State's Metabolic System

Revenue administration is the physiological system through which a state converts the economic activity of its population and enterprises into the financial resources required to fund its

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obligations and pursue its developmental ambitions. Like any metabolic system, it can be efficient or sluggish, comprehensive or selective, just or predatory. The health of a state's revenue administration is not a narrowly technical matter. It is a reflection of the state's relationship with its own society: the degree to which citizens and enterprises accept the legitimacy of taxation, the extent to which the administrative apparatus is capable and trustworthy, and the depth to which political authority is willing to enforce compliance even against powerful and well-connected interests.

This definition departs from traditional descriptions of revenue administration as a collection agency or tax bureaucracy. Those descriptions miss the relational and political dimensions that determine whether a revenue system generates not just receipts but fiscal legitimacy: the quality of public consent to being taxed, which ultimately determines the sustainability of any fiscal architecture.

Bangladesh's revenue administration has suffered from a specific pathology that this textbook names Institutional Capture Sclerosis: a condition in which a revenue authority develops vested interests in preserving institutional arrangements that protect the discretionary power of its officials, facilitate informal rent extraction from taxpayers, and resist the standardization and transparency that genuine modernization would impose. This condition is not unique to Bangladesh; it is documented in revenue administrations across South Asia, sub-Saharan Africa, and parts of Latin America. But it has been particularly persistent in Bangladesh, where the National Board of Revenue, established under President's Order No. 76 of 1972, functioned for more than fifty years as a hybrid institution combining revenue policy formulation with revenue collection, creating the structural conflict of interest that the 2025 reform was designed to resolve.

57.2 The NBR: A Half-Century of Structural Contradiction

The National Board of Revenue operated as the apex body of Bangladesh's tax administration from 1972 to the promulgation of the Revenue Policy and Revenue Management Ordinance of May 12, 2025. During those fifty-three years, it accumulated responsibilities that would in best-practice jurisdictions be distributed across separate, specialized institutions. It designed tax policy and enforced it. It set VAT rates and prosecuted VAT evaders. It negotiated international tax treaties and conducted domestic audits. It advised the Finance Ministry on budget proposals while simultaneously trying to meet the revenue targets those budgets set.

The structural problem with this arrangement is not difficult to identify. When the same institution that sets the tax policy is also responsible for enforcing it, several pathological dynamics emerge. First, enforcement decisions are made with one eye on the political consequences for the institution itself, not purely on the merits of the law. An NBR that knows it will miss its revenue target has an incentive to generate collections through aggressive enforcement against easily accessible businesses, even if the law does not technically support the assessment. This is the genesis of what Bangladeshi business communities have for years described as "tax harassment": assessments that are legally questionable but practically irresistible because challenging them requires the taxpayer to engage in a prolonged and expensive administrative dispute with the very institution that set the rules.

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Second, the absence of a separate policy function means that tax policy is developed by officials whose primary professional reward comes from meeting collection targets. Their policy instincts are therefore systematically tilted toward measures that are easy to collect (indirect taxes, at-source deductions) rather than measures that are economically optimal (broad-based income taxation, progressive wealth taxation, capital gains capture). The result is precisely Bangladesh's current tax structure: a system that relies heavily on VAT, customs duties, and withholding taxes at source, and underutilizes direct progressive taxation.

Third, the dual role created opportunities for rent extraction that have been extensively documented in investigative journalism, civil society reports, and donor assessments. Officials who both design the rules and enforce them possess the discretionary power to create ambiguity, interpret it selectively, and resolve it in ways that create private gain. The Centre for Policy Dialogue's 2024 white paper on the state of Bangladesh's economy documented instances of arbitrary assessment practices, unofficial payments demanded before assessments were finalized, and systematic underassessment of taxpayers with political connections alongside overassessment of those without them.

57.3 The 2025 Reform: Architecture, Controversy, and Implementation Reality

The Revenue Policy and Revenue Management Ordinance promulgated on May 12, 2025, by President Mohammed Shahabuddin, acting on the advice of the interim government, represented the most fundamental restructuring of Bangladesh's revenue administration since independence. The ordinance dissolved both the Internal Resources Division and the National Board of Revenue and established in their place two distinct entities under the Finance Ministry: the Revenue Policy Division, responsible for tax policy formulation, international tax treaty negotiation, and revenue research; and the Revenue Management Division, responsible for tax collection, compliance enforcement, audit, and taxpayer services.

The reform was explicitly linked to the IMF's Extended Credit Facility conditions. The Medium and Long Term Revenue Strategy (MLTRS), developed by the NBR itself under donor guidance and covering the period FY2025-26 to FY2034-35, had articulated the same institutional separation as a precondition for improving Bangladesh's tax-to-GDP ratio from its chronic 7 to 8 percent level to the target of 10.5 percent by FY2035. The MLTRS recognized, with unusual institutional candor for a document produced by the institution it was critiquing, that the NBR's organizational structure was itself an obstacle to revenue performance improvement.

The implementation of the reform, however, illustrates a principle this textbook introduces here: the Reform Announcement Effect versus the Reform Institutionalization Gap. The Reform Announcement Effect refers to the immediate political and credibility benefits that accompany the announcement of a major institutional reform: international creditor approval, positive media coverage, enhanced donor confidence. The Reform Institutionalization Gap refers to the typically longer and more contested process of actually changing the organizational culture, staffing patterns, incentive structures, and operational procedures that constitute the real substance of institutional functioning.

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Bangladesh's NBR reform of 2025 generated a dramatic Reform Announcement Effect. It satisfied an IMF structural benchmark, received praise from international financial institutions and development partners, and was widely welcomed by business organizations, civil society groups, and economists who had long advocated the change. The Reform Institutionalization Gap, however, proved deeper and more turbulent than reform architects anticipated.

NBR officials and employees mounted sustained resistance throughout 2025. The NBR Reform Unity Council, formed in response to the ordinance, organized pen-down strikes, sit-ins, and partial disruptions at Customs House Chittagong, Bangladesh's busiest trade gateway, in June 2025. The resistance was motivated by several concerns, some principled and some self-interested. The principled concerns included genuine questions about whether general administration cadre civil servants, who might head the new divisions, possessed the technical expertise in taxation, customs law, and international tax treaties needed to lead complex revenue institutions. The self-interested concerns included fears about career trajectories, promotions, and the preservation of the institutional power and informal income opportunities that the existing NBR structure had provided.

The government's response combined firmness with adaptation. Revenue services were declared essential, making strike actions legally prohibited. Senior officials who publicly resisted were suspended or retired. But the government also revised the ordinance in August 2025 to address some cadre representation concerns, signaling a willingness to negotiate the organizational details of implementation even while maintaining the structural reform. The timeline for completing the separation was revised multiple times, with Finance Adviser Salehuddin Ahmed indicating the separation would be complete before the national elections scheduled in early 2026, a deadline that as of December 2025 had not been fully met.

The NBR disruption had quantifiable fiscal consequences. The NBR fell short of its five-month revenue target (July to November 2025) by Tk 23,000 crore, with an estimated 20 percent of the total revenue shortfall attributable to the combined disruptions of the July 2024 mass uprising and the NBR staff protests of 2025. This revenue shortfall, combined with the broader economic slowdown that reduced GDP growth to approximately 3.3 percent in the first half of FY2025, created fiscal pressure that forced budget expenditure rationalization mid-year.

57.4 A New Principle: The Principle of Participatory Reform Architecture

The NBR reform controversy illuminates a principle that deserves formal articulation in fiscal governance theory. The Principle of Participatory Reform Architecture holds that the sustainability of institutional reforms in revenue administration depends critically on the degree to which affected professionals and officials are genuinely incorporated into the reform design process, not merely consulted through performative consultation exercises after the fundamental design decisions have been made.

This principle draws on both organizational behavior theory and political economy research. James Q. Wilson's work on bureaucratic politics demonstrated that institutional reforms are more likely to succeed when they align with the operative goals of the front-line officials who must implement them, or when they provide credible alternative rewards for the loss of previous

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privileges. The NBR experience illustrates the opposite: a reform designed by an advisory committee whose report was not publicly released, promulgated by executive ordinance without parliamentary debate, which created uncertainty about career consequences for existing staff, and which was implemented on a timeline that independent experts described as impractical.

The Principle of Participatory Reform Architecture does not imply that reform should be hostage to the veto of those whose interests it threatens. It implies that reform designers must honestly assess the political economy of their reform, build in transitional provisions that reduce the cost of compliance for good-faith actors, and sequence implementation to demonstrate early wins before requiring the most politically difficult changes.

57.5 The Medium and Long Term Revenue Strategy: Ambition, Realism, and the 10.5 Percent Challenge

The MLTRS, covering the decade from FY2025-26 to FY2034-35, represents the most comprehensive revenue reform roadmap Bangladesh has ever produced. Its central ambition is to raise the tax-to-GDP ratio to 10.5 percent by FY2035, roughly doubling Bangladesh's current revenue effort relative to the size of the economy.

This ambition is both inspiring and analytically demanding. Achieving a 3 percentage point improvement in the tax-to-GDP ratio over a decade requires a sustained annual improvement in revenue collection that exceeds GDP growth by approximately 3 percentage points, year after year, for ten consecutive years. No South Asian country has achieved this at Bangladesh's current income level without either a significant structural shock to the economy (formalization of a large informal sector, major industrialization) or a fundamental political realignment that made tax enforcement against previously protected interests politically feasible.

The MLTRS identifies three strategic pillars for achieving its target: base broadening (bringing more taxpayers and more economic activity within the tax net), compliance improvement (closing the gap between taxes legally owed and taxes actually collected), and administration modernization (digitizing tax processes, improving audit quality, and strengthening taxpayer services).

The base broadening pillar includes several specific measures: expanding VAT registration to businesses with annual turnover above Tk 50 lakh (reduced from the previous threshold of Tk 3 crore), integrating tax identification numbers with the National Identity Card system to ensure that all adults with income can be tracked for tax purposes, and using third-party data from financial institutions, trade registries, and utility companies to identify taxable economic activity currently outside the formal tax net.

The compliance improvement pillar includes mandatory electronic filing and payment of all major taxes, enhanced audit coverage, transfer pricing enforcement for multinational transactions, and the behavioral tax design interventions discussed in Chapter Four: social norm messaging, simplified return forms, and personalized filing assistance.

The administration modernization pillar is the most capital-intensive, requiring significant investment in the digital transformation of tax administration systems, including e-return systems, electronic invoicing for VAT, integrated customs automation under ASYCUDA World, and an interoperable tax data management system that allows the Revenue Management Division to cross-reference data from multiple sources.

A new doctrine relevant to this strategy is the Doctrine of Fiscal Gradualism with Structural Anchors: the principle that ambitious revenue targets in developing economies are most credibly achieved through a sequence of modest, sustained incremental improvements, each anchored to a structural institutional change that locks in the gain and prevents regression. Tax-to-GDP improvements achieved through enforcement drives without underlying structural reforms tend to be temporary, reversing when enforcement intensity relaxes. Improvements anchored to electronic filing mandates, digital invoicing, or cross-matching with financial sector data are more durable because they change the information environment in which compliance decisions are made.

57.6 Tax Expenditure Reform: The Hidden Budget Within the Budget

One of the most persistently underanalyzed dimensions of Bangladesh's fiscal architecture is the scale of tax expenditure: the revenue forgone through exemptions, tax holidays, preferential rates, and other departures from the standard tax treatment of economic activity. Tax expenditures are, in economic substance, a form of public spending: instead of collecting revenue and then paying a subsidy from the treasury, the government simply reduces the tax liability of the favored activity or entity. They are economically equivalent to direct spending but are largely invisible in budget documents and escape the scrutiny that direct expenditure attracts.

The IMF's 2025 review of Bangladesh's fiscal framework estimated total tax expenditure at roughly 2 to 3 percent of GDP, though the absence of a comprehensive tax expenditure statement from the government made precise quantification difficult. This estimate implies that Bangladesh is forgoing revenue roughly equivalent to a quarter to a third of its total tax collection through various exemption and holiday provisions, a figure that would, if even partially recovered, dramatically change the fiscal arithmetic of the country.

The largest categories of tax expenditure in Bangladesh include: income tax holidays for industries in Export Processing Zones and Special Economic Zones; preferential VAT rates and exemptions for a wide range of goods and services, many of which reflect historical policy choices rather than current rational priorities; customs duty exemptions for capital machinery imports in various sectors; and the various tax amnesty provisions for undisclosed income (the politically controversial "black money whitening" provisions that Transparency International Bangladesh criticized in 2025) that allow holders of undisclosed income to bring it into the formal economy by paying a modest tax at a flat rate without scrutiny of its origins.

A new term introduced here is the Shadow Appropriation: a tax expenditure provision that functions as a de facto public subsidy but operates through the revenue account rather than the expenditure account, escaping the scrutiny, annual reauthorization requirements, and performance assessment that the expenditure side of the budget is supposed to receive. Shadow

appropriations are particularly problematic because they benefit from a form of institutional immunity: once granted, tax holidays and exemptions become politically costly to remove because the beneficiaries develop both economic dependence on them and political relationships that protect them.

The FY2025-26 budget's commitment to reduce exemptions and move toward a uniform VAT rate of 15 percent represents an important first step toward bringing shadow appropriations into public view. The World Bank's Bangladesh Development Update strongly supported this direction, arguing that a transparent tax expenditure framework was essential for honest fiscal accounting.

57.7 Exam Questions: Chapter Fifty-Seven

Questions for BEcon Examination

- Define Institutional Capture Sclerosis as it applies to Bangladesh's National Board of Revenue. Using evidence from the pre-2025 period, identify three specific consequences of this condition for Bangladesh's fiscal performance. (15 marks)
- What is the Reform Announcement Effect versus the Reform Institutionalization Gap? Apply these concepts to the NBR split of 2025, identifying the specific factors that widened the institutionalization gap. (15 marks)
- What is a Shadow Appropriation? Using the example of Bangladesh's tax holiday system, explain how shadow appropriations undermine fiscal transparency and equity. Propose two institutional reforms that would bring shadow appropriations into the regular budget scrutiny process. (15 marks)

Questions for BSS (Economics) Examination

- Critically assess the feasibility of the MLTRS target of a 10.5 percent tax-to-GDP ratio by FY2035. What structural changes in the economy and in revenue administration would be necessary to achieve this target? (15 marks)
- Explain the Principle of Participatory Reform Architecture. Drawing on the NBR reform controversy of 2025, assess whether this principle was followed and what the consequences of non-compliance were for revenue collection. (12 marks)

Questions for MSS (Economics) Examination

- Using principal-agent theory and the political economy of bureaucratic reform, provide a comprehensive analysis of why the NBR reform of 2025 generated the level of internal resistance it did. What institutional design changes in the reform architecture would have reduced this resistance? Does the reform, despite its turbulent implementation, represent a net improvement for Bangladesh's fiscal system? Justify your answer with a rigorous economic argument. (30 marks)
- The Doctrine of Fiscal Gradualism with Structural Anchors suggests that revenue improvements must be anchored to structural institutional changes to be sustainable. Drawing on comparative experience from Indonesia's tax reforms (2001-2008) and

Rwanda's revenue authority transformation (2000-2010), evaluate whether Bangladesh's current reform trajectory is consistent with this doctrine. (25 marks)

CHAPTER FIFTY-EIGHT: DEEP INVESTIGATION INTO FISCAL LEAKAGE, BLACK MONEY, CORRUPTION, AND THE ACCOUNTABILITY ARCHITECTURE OF BANGLADESH'S BUDGET

58.1 A New Concept: Fiscal Hemorrhage and its Measurement

Every fiscal system loses some portion of the resources it mobilizes before those resources reach their intended beneficiaries. Some of this loss is inevitable: administrative costs, reasonable transaction friction, the inherent difficulty of delivering public services in remote and complex environments. But a portion of every country's fiscal loss is not inevitable: it is systematic, institutionally embedded, and politically protected. This portion is what this textbook terms Fiscal Hemorrhage: the structured, recurrent, and politically reinforced diversion of public resources away from their socially mandated purposes, either through overt theft, through the allocation of public spending to politically connected but economically unproductive purposes, or through the systemic under-collection of legally owed revenues.

Fiscal Hemorrhage differs from ordinary budget inefficiency in one critical respect: it has beneficiaries who actively invest in its perpetuation. Budget inefficiency is typically a product of administrative weakness and can in principle be corrected through better management systems and training. Fiscal Hemorrhage is a product of structured incentive systems, where specific actors within the fiscal machinery profit from diversion and use their political connections and institutional positions to prevent the reforms that would stop it.

Measuring Fiscal Hemorrhage precisely is methodologically difficult because its perpetrators work to make it invisible. But several methodological approaches provide partial estimates. First, the comparison of announced budget allocations with verified service delivery outcomes produces what researchers call the budget-service gap: the portion of a budget allocation that cannot be accounted for by actual improvements in services. In Bangladesh, repeated Public Expenditure Tracking Surveys, most comprehensively conducted for the education sector, have found that a significant portion of education grants to primary schools did not arrive at the school level, being diverted at intermediate administrative levels. Second, analysis of ADP project cost overruns, compared with international benchmarks for similar projects, provides a proxy for procurement-related diversion. Third, comparison of tax collection efficiency with peer countries at similar income and development levels provides a proxy for the portion of legally owed taxes that are not being collected, either through administrative weakness or through politically accommodated evasion.

58.2 The Black Money Economy and its Fiscal Architecture

The Bangladeshi economy supports a large and complex informal sector in which economic activity is conducted outside the scope of formal registration, accounting, and taxation. The size

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of this informal economy has been estimated at various points between 50 and 65 percent of GDP, though the definitional and measurement challenges make any specific estimate highly uncertain. What is clear is that a substantial portion of the value created by economic activity in Bangladesh is never subjected to taxation, creating both an equity problem (those in the formal sector paying taxes that those in the informal sector avoid) and a revenue problem (a significant gap between the taxes that would be collected under full compliance and those actually collected).

Beyond the structural informality of the economy, Bangladesh has documented problems with undisclosed income among individuals and enterprises that are nominally in the formal sector. The practice of maintaining two sets of accounts, one for internal business purposes and one for submission to tax authorities, is widely acknowledged even by tax officials as prevalent among medium and large businesses. The consequence is a formal sector tax base that is significantly smaller than the formal sector economy.

Bangladesh's successive budgets have addressed this problem through an unusual instrument: the tax amnesty provision for "undisclosed income," colloquially known as the black money whitening provision. Under these provisions, holders of undisclosed income can bring it into the formal economy by paying a flat tax rate (typically ranging from 10 to 25 percent depending on the category of asset) without the income being subject to further scrutiny regarding its origins or without the taxpayer being liable for back taxes at normal rates on the undisclosed amount.

The rationale for black money whitening provisions, as articulated by successive finance ministers, is pragmatic: given the difficulty of enforcing back taxes against undisclosed income, the government reasons that collecting some revenue from a voluntary disclosure is better than collecting nothing while allowing the undisclosed assets to remain permanently outside the formal economy. Supporters also argue that bringing undisclosed capital into the formal economy encourages its productive deployment through formal financial channels.

The case against these provisions is powerful and has been consistently made by Transparency International Bangladesh, the CPD, and international anti-corruption organizations. First, repeated amnesty provisions create a predictable expectation among potential tax evaders that future amnesties will also be available, weakening the incentive to comply with tax obligations in the present. This is the Moral Hazard of Serial Amnesty: each amnesty increases the likelihood of future evasion by demonstrating that the state will eventually forgive non-compliance at a discounted rate. Second, the provision is constitutionally questionable: Bangladesh's Constitution under Article 20(2) prohibits the acquisition of property by dishonest means, and tax evasion is by definition a dishonest acquisition of resources legally owed to the state. Third, the provision creates a stark inequity between those who pay their taxes honestly and those who evade and are then rewarded with discounted rates and immunity from prosecution.

The FY2025-26 budget continued the black money whitening provision, drawing sharp criticism from TIB, which described the decision as "unconstitutional and a betrayal of the interim government's anti-corruption commitments." The interim government's defense, that the practical considerations of revenue mobilization during a fiscal crisis outweighed the principled

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objections, reflects the perennial tension between fiscal pragmatism and fiscal justice that characterizes Bangladesh's budgeting.

A new principle relevant here is the Principle of Fiscal Moral Hazard Containment: the idea that the long-term cost of policies that create systematic incentives for non-compliance will, in any multi-period fiscal analysis, exceed the short-term revenue gains those policies produce, and that the accumulation of moral hazard over repeated amnesties represents a structural risk to the fiscal system's long-term revenue capacity.

58.3 Procurement Corruption: The Architecture of Project-Level Diversion

If tax evasion is the revenue-side manifestation of Fiscal Hemorrhage, procurement corruption is its expenditure-side counterpart. Public procurement in Bangladesh, which involves the purchase of goods, works, and services worth many tens of thousands of crore taka annually, is the single largest vector of fiscal diversion at the expenditure stage.

The Public Procurement Act of 2006, reformed and strengthened in subsequent years, provides a formal legal framework for competitive tendering, price reasonableness assessment, and anti-corruption safeguards in government contracts. The implementation of this framework, however, is subject to multiple circumvention mechanisms that are widely known and have been extensively documented.

Cartelized tendering, in which a small group of contractors coordinate to divide contracts among themselves while maintaining the appearance of competition, is documented across multiple infrastructure sectors. The practice typically involves one firm making the winning bid at a price just below a threshold that would trigger enhanced scrutiny, with other firms submitting bids designed to lose. The winning bidder then shares a portion of the contract value with the coordinating group, including the relevant officials who facilitated the process.

Cost inflation in Development Project Proposals is another well-documented mechanism. Project cost estimates are inflated relative to realistic benchmarks, providing a buffer between the contracted price and the actual cost of works, which is shared between contractors and officials. Bangladesh's Infrastructure Development Company Limited (IDCOL) and the Implementation, Monitoring and Evaluation Division (IMED) have both documented patterns of cost overrun in infrastructure projects that exceed international benchmarks for similar project types and geographic conditions, suggesting a systematic rather than accidental pattern.

The post-uprising investigations that began after August 2024 revealed the scale of some of these practices with unusual clarity. Anti-Corruption Commission cases filed from July 2024 to January 2025 totaled 515 registered cases, with 814 chargesheet submissions and 59 convictions by January 2025. The investigations documented patterns of kickback arrangements in road construction projects, informal payments in customs clearance, and the deliberate creation of project implementation delays to extend the period during which contractors could draw advances from government accounts.

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A new term introduced here is the Procurement Equilibrium Trap: a state in which procurement corruption is sufficiently widespread and institutionally embedded that individual actors within the system face strong incentives to participate in corrupt practices even if they personally prefer honest behavior, because honest behavior in a corrupt system imposes costs (losing contracts to corrupt competitors, facing retaliation from officials who profit from kickbacks) that honest actors cannot afford individually. Breaking the Procurement Equilibrium Trap requires not just individual-level enforcement but systemic-level reform: changing the information environment (through electronic procurement platforms), the organizational incentives (through procurement officer professionalization and monitoring), and the accountability context (through civil society oversight and media scrutiny) simultaneously.

58.4 The Anti-Corruption Architecture: ACC, TIB, and the Limits of Formal Enforcement

Bangladesh's formal anti-corruption architecture centers on the Anti-Corruption Commission (ACC), established under the Anti-Corruption Commission Act of 2004, and supported by civil society organizations including Transparency International Bangladesh. The ACC has constitutional independence and statutory investigative powers. It has become considerably more active since 2024, with the interim government's anti-corruption mandate driving increased case filings and high-profile prosecutions.

However, the effectiveness of formal enforcement institutions against systemic Fiscal Hemorrhage is limited by several structural features of Bangladesh's governance environment. First, the ACC's investigative capacity relative to the scale of potential corruption in a country that spends over Tk 790,000 crore annually is severely limited. A few hundred investigators cannot meaningfully monitor the procurement decisions, tax assessment practices, and administrative decisions of hundreds of thousands of government officials. Second, the judicial system's capacity to process corruption cases at the speed needed to deter ongoing misconduct is constrained by the backlog that characterizes Bangladesh's courts. Third, and most fundamentally, corruption at senior levels of government has historically enjoyed a degree of political protection that independent enforcement institutions could not overcome.

A new philosophical framework relevant here is what this textbook terms Systemic Integrity Architecture: the idea that corruption control in a developmental state cannot rely primarily on ex-post enforcement (prosecuting corrupt actors after harm has occurred) but must be built into the ex-ante design of institutions, through structural features that reduce discretion, increase transparency, create multiple independent verification channels, and align the interests of officials with honest behavior through appropriate professional incentives and career structures.

58.5 Exam Questions: Chapter Fifty-Eight

Questions for BEcon Examination

- Define Fiscal Hemorrhage and distinguish it from ordinary budget inefficiency. Using two examples from Bangladesh's fiscal history, illustrate how Fiscal Hemorrhage has specific beneficiaries who actively protect it. (15 marks)

- What is the Moral Hazard of Serial Amnesty? Provide an economic analysis of how Bangladesh's repeated black money whitening provisions have affected tax compliance incentives over the long term. (12 marks)
- Describe the Procurement Equilibrium Trap. What combination of institutional reforms would be required to break this trap in Bangladesh's public procurement system? (12 marks)

Questions for BSS (Economics) Examination

- Critically evaluate the effectiveness of Bangladesh's Anti-Corruption Commission as an instrument for reducing Fiscal Hemorrhage. What structural reforms would strengthen its effectiveness? (15 marks)
- Apply the Systemic Integrity Architecture framework to design three specific institutional features of a reformed budget system that would reduce corruption at the expenditure stage without creating excessive administrative burden. (12 marks)

Questions for MSS (Economics) Examination

- Develop a comprehensive methodology for estimating the scale of Fiscal Hemorrhage in Bangladesh's budget. Drawing on Public Expenditure Tracking Survey methodology, procurement analysis benchmarks, and tax gap estimation techniques, construct a plausible range estimate for total annual Fiscal Hemorrhage in Bangladesh's fiscal system and evaluate the implications for public policy. (35 marks)

CHAPTER FIFTY-NINE: THE BANKING SECTOR CRISIS, STATE-OWNED ENTERPRISE FISCAL RISK, AND THE CONTINGENT LIABILITY ARCHITECTURE OF BANGLADESH'S PUBLIC BALANCE SHEET

59.1 A New Concept: The Fiscal Shadow Balance Sheet

A government's formal fiscal position, as reported in its budget documents, presents only a partial picture of its true financial exposure. Alongside the formal balance sheet of budgeted revenues, appropriated expenditures, and declared public debt, every government maintains what this textbook terms a Fiscal Shadow Balance Sheet: the accumulated contingent liabilities, off-budget obligations, state-owned enterprise financial risks, and implicit guarantees that do not appear in budget documents but represent genuine future claims on public resources.

Bangladesh's Fiscal Shadow Balance Sheet is substantial and, as of 2025-26, represents one of the most significant medium-term fiscal risks the country faces. Its major components include: the capital needs of state-owned banks whose non-performing loan portfolios have created massive recapitalization requirements; the operating losses and accumulated arrears of state-owned enterprises in the energy sector; the guarantees provided to borrowers under government-backed schemes; and the pension and employment obligations of state-owned institutions that have not been fully funded.

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Understanding the Fiscal Shadow Balance Sheet requires understanding how these contingent liabilities originate, how they interact with the formal budget, and what the realistic range of fiscal costs associated with their crystallization might be.

59.2 State-Owned Bank Recapitalization: The Fiscal Cost of Governance Failure

Bangladesh's banking sector, as of 2025, is characterized by a system-level non-performing loan (NPL) problem that represents the most significant contingent fiscal liability on the Fiscal Shadow Balance Sheet. Classified loans in the banking system reached approximately Tk 2.11 trillion (roughly 17 percent of total outstanding loans) in mid-2024, with the state-owned commercial banks disproportionately affected. Sonali Bank, Agrani Bank, Janata Bank, and Rupali Bank, the four major state-owned commercial banks, collectively held non-performing loan ratios significantly above the system average.

The fiscal implications of banking sector distress are direct and severe. When state-owned banks cannot meet their capital adequacy requirements, the government as shareholder is expected to inject capital. Between FY2011 and FY2024, the Bangladesh government injected more than Tk 35,000 crore into state-owned banks to maintain their regulatory capital. These injections are funded through the budget, appearing as expenditure items under "special allocations for banking sector recapitalization," but their root cause is governance failure at the banks themselves: politically directed lending to connected borrowers, weak credit appraisal, inadequate collateral management, and the political difficulty of enforcing loan recovery against powerful defaulters.

The Bangladesh Bank, under the leadership installed by the interim government in August 2024, moved decisively to address the problem. In early 2026, the central bank announced that nine financial institutions would be declared non-viable, a public acknowledgment of the depth of the problem and a signal that the era of indefinite forbearance was ending. The IMF's January 2026 country report confirmed this direction, noting that the resolution of weak banks, while associated with short-term fiscal costs, was essential for the long-term financial stability of the system and for preventing the perpetuation of the Fiscal Shadow Balance Sheet's banking sector exposure.

The IMF's projections estimated that the banking sector cleanup would cost approximately 2.4 percent of GDP in fiscal space over the medium term, a significant but manageable cost if distributed appropriately over several years and if the reform measures that accompanied the cleanup prevented recurrence. The reforms being pursued include governance changes at state-owned banks (separating ownership from management, professionalizing boards, removing politically connected directors), stricter enforcement of related-party lending limits, enhanced supervision by Bangladesh Bank, and the introduction of an Asset Management Company to take over and manage the legacy non-performing loan portfolios.

59.3 Energy Sector SOE Losses: The Subsidy Iceberg

The energy sector state-owned enterprises represent the second largest component of Bangladesh's Fiscal Shadow Balance Sheet. The five largest energy SOEs, including Bangladesh Power Development Board (BPDB), Petrobangla, and their subsidiaries, together accounted for

approximately 70 percent of total SOE losses in FY2024, according to the IMF's 2025 country report. These losses were driven primarily by the gap between the cost of procuring fuel and electricity and the end-user tariffs charged to consumers, a gap that the government had maintained for political reasons even as international energy prices rose sharply.

The fiscal mechanism through which energy SOE losses affect the public balance sheet is complex. Direct subsidies from the budget (amounting to approximately 1 percent of GDP in FY2025) represent only the visible portion. The larger exposure comes through SOE arrears: when BPDB cannot pay for electricity it has contracted to purchase from independent power producers, those arrears accumulate as a contingent obligation of the government, which stands behind BPDB's contracts. The total arrears in the energy value chain, estimated at several hundred thousand crore taka, represent a fiscal obligation that must eventually be addressed.

The IMF's prescription, endorsed by the interim government in the FY2025-26 budget, is a three-year electricity tariff reform roadmap covering FY2027-29, under which tariffs would be gradually adjusted toward cost recovery levels, accompanied by targeted social protection measures to protect low-income households from the impact of higher electricity prices. This approach is economically sound: the current system, in which large industrial users, commercial establishments, and wealthy households all benefit from below-cost electricity, is regressive in its distributional impact, with well-off consumers capturing the largest share of the implicit subsidy.

A new doctrine relevant here is the Doctrine of Transparent Subsidy Accounting: the principle that all public subsidies, including those delivered through SOE pricing below cost, must be quantified, made visible in fiscal reporting, evaluated for distributional impact, and subjected to the same performance assessment and annual reauthorization process as direct expenditure subsidies. The invisibility of energy SOE losses in standard budget documents has allowed them to accumulate to a scale that now constitutes a genuine medium-term fiscal risk.

59.4 Exam Questions: Chapter Fifty-Nine

Questions for BEcon Examination

- Define the Fiscal Shadow Balance Sheet. Identify three major components of Bangladesh's Fiscal Shadow Balance Sheet and explain how each represents a genuine claim on future public resources. (15 marks)
- Explain the Doctrine of Transparent Subsidy Accounting. How does the current treatment of energy SOE losses in Bangladesh's budget violate this doctrine? (10 marks)

Questions for BSS (Economics) Examination

- Analyze the fiscal implications of Bangladesh's banking sector NPL crisis. What is the mechanism through which NPL accumulation in state-owned banks creates budgetary costs, and what institutional reforms would prevent recurrence? (15 marks)

Questions for MSS (Economics) Examination

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- Using the concept of the Fiscal Shadow Balance Sheet, construct a comprehensive assessment of Bangladesh's total fiscal exposure including both formal and contingent liabilities as of FY2025-26. How does this fuller picture change the assessment of Bangladesh's fiscal sustainability relative to the standard debt-to-GDP and deficit-to-GDP measures? (35 marks)

CHAPTER SIXTY: PUBLIC HEALTH FINANCING ARCHITECTURE: FROM OUT-OF-POCKET CATASTROPHE TO UNIVERSAL HEALTH COVERAGE

60.1 A New Definition: Health Fiscal Sovereignty

Health Fiscal Sovereignty is the capacity of a state to deploy sufficient, effectively managed public resources to ensure that no citizen is denied access to essential health services or faces financial catastrophe as a consequence of health expenditure. A state that lacks Health Fiscal Sovereignty has, in effect, outsourced its core welfare responsibility to its citizens' private financial resources and to the mercy of private markets, with predictable and devastating consequences for low-income populations.

Bangladesh's health financing system is characterized by a severe deficit of Health Fiscal Sovereignty. The proportion of total health expenditure financed by the government is approximately 30 percent, meaning that 70 percent of health spending comes from private sources, of which the vast majority is out-of-pocket payment at the point of care. This ratio places Bangladesh among the most privately financed health systems in the world, with a structure that the World Health Organization identifies as systematically incompatible with Universal Health Coverage.

The consequences of this structure are documented with unusual clarity in Bangladesh's own household surveys. Approximately 68 percent of Bangladeshis who seek health care pay for it entirely from their own pockets. An estimated 6.5 million Bangladeshis are pushed into poverty each year by health expenditures they cannot afford, a phenomenon known as catastrophic health expenditure. This single statistic means that the health financing system, as currently structured, is actively generating poverty at a rate that partially offsets the poverty reduction achievements of the economy's growth performance.

60.2 The Budget's Health Allocation: Quantity, Quality, and the UNESCO-WHO Gap

Bangladesh allocates approximately 5 percent of its total national budget to health, equivalent to roughly 0.86 to 0.9 percent of GDP in FY2025-26. This allocation is severely below both WHO recommendations (5 percent of GDP) and the Abuja Declaration target for health financing (15 percent of national budget in African countries, with similar advocacy for developing countries elsewhere). The gap between current allocation and internationally recommended levels is so large that even substantial nominal increases in the health budget would leave Bangladesh far below the levels needed to achieve Universal Health Coverage within a decade.

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The FY2025-26 health allocation of approximately Tk 41,407 crore for the Ministry of Health and Family Welfare represents a nominal increase but a share of GDP that has barely moved from previous years. The allocation is split between the Ministry of Health and Family Welfare (primary and secondary health services, disease control, pharmaceutical regulation) and several specialized agencies, but the overall envelope remains deeply insufficient relative to need.

Quality deficiencies in health spending compound the quantity problem. Bangladesh's pattern of health expenditure strongly favors tertiary curative care at urban facilities over primary preventive care at community level. The network of Community Clinics, which are the most cost-effective point of contact between the health system and the majority of the population, are chronically underfunded, understaffed, and under-supplied with essential medicines. A Community Clinic that lacks a trained health worker, that runs out of essential medicines within the first week of each month because of supply chain failures, and that has no reliable electricity for vaccine storage is not merely an underfunded facility: it is a broken social contract with the rural communities that depend on it.

60.3 A New Framework: The Health Fiscal Ecology

The Health Fiscal Ecology framework holds that the health outcomes of a population are produced not by health spending alone but by the interaction of health spending with the broader fiscal ecology of related social determinants: the quality of water and sanitation infrastructure (which determines the incidence of waterborne disease), the nutritional adequacy of school feeding programs (which determines child immunological capacity), the income support provided to poor households (which determines their ability to seek care before conditions become catastrophic), and the regulatory environment governing food safety, environmental pollution, and pharmaceutical quality.

Bangladesh's health fiscal ecology is characterized by significant imbalance. The government spends resources on curative services while underinvesting in the social determinants that prevent disease in the first place. The water and sanitation budget is chronically below the investment levels needed to achieve universal access to safely managed water and sanitation. Approximately 27 million Bangladeshis still lack access to safely managed drinking water. Arsenic contamination of groundwater, particularly in the southern and southwestern districts, continues to cause chronic exposure-related illness for millions of people, a public health emergency that adequate investment in piped water supply could largely resolve.

The most cost-effective interventions in the health fiscal ecology are not clinical. They are the food fortification programs that prevent micronutrient deficiency in children under five, with long-term consequences for cognitive development. They are the maternal nutrition programs that reduce low birth weight, which is one of the strongest predictors of lifelong health disadvantage. They are the immunization supply chain investments that ensure vaccines reach the rural children who need them at the right temperature. They are the hygiene promotion and handwashing programs in primary schools that reduce the burden of diarrheal disease and respiratory infection.

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A new principle articulated here is the Principle of Preventive Fiscal Priority: the axiom that in public health budgeting, the allocation of resources should be systematically weighted toward preventive and primary care interventions with high population-level impact at low unit cost, relative to high-technology curative interventions with high unit cost and concentrated benefit, unless there is specific evidence that the curative intervention addresses a disease burden so large or so severe that its cost-effectiveness rivals that of prevention.

60.4 Universal Health Coverage: The Fiscal Architecture Required

Universal Health Coverage, as defined by the WHO, means that all people have access to the health services they need without suffering financial hardship. Achieving UHC in Bangladesh requires a fundamental transformation of the health financing architecture, not incremental adjustments to the current system.

The fiscal architecture required for UHC involves three interconnected reforms. First, a substantial increase in public health spending, from the current 0.9 percent of GDP toward at least 3 to 4 percent over a decade, financed primarily through improved domestic revenue mobilization rather than external aid, which is less reliable and comes with conditionalities that may not align with national health priorities. The MLTRS's projected improvement in the tax-to-GDP ratio to 10.5 percent by FY2035 is therefore a necessary precondition for UHC financing: without more revenue, there is no fiscal space for health spending expansion.

Second, a fundamental change in how public health spending is organized, shifting from input-based financing (paying for facilities and salaries regardless of whether services are delivered) to output-based or results-based financing that links payment to verified service delivery and health outcomes. Several results-based financing pilots in Bangladesh have shown that this shift can dramatically improve the quality and volume of services, particularly at the primary care level.

Third, the development of a social health insurance architecture that pools risk across income groups, enabling cross-subsidization from high-income to low-income contributors while reducing the reliance on direct out-of-pocket payment. Bangladesh has piloted elements of social health insurance in limited contexts, including the Shasthyo Surokhsha Karmasuchi (Health Protection Scheme) for garment workers and some civil service schemes, but a comprehensive national scheme covering the entire population does not yet exist.

A new concept introduced here is the Health Financing Transition Pathway: the structured multi-year sequence of fiscal, institutional, and organizational reforms through which a country moves from a predominantly out-of-pocket, fragmented health financing system to an integrated public financing system capable of delivering Universal Health Coverage. Countries that have successfully navigated this transition, including Thailand, Vietnam, and Rwanda within the global health financing literature, demonstrate that the transition is achievable within a generation but requires political commitment, sustained investment, and careful institutional sequencing.

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60.5 Exam Questions: Chapter Sixty

Questions for BEcon Examination

- Define Health Fiscal Sovereignty. To what extent does Bangladesh currently possess Health Fiscal Sovereignty? Use specific data from the FY2025-26 health budget to support your answer. (15 marks)
- Explain the Principle of Preventive Fiscal Priority. How does Bangladesh's current health expenditure pattern violate this principle, and what specific reallocation of resources within the existing health budget would bring it into compliance? (15 marks)

Questions for BSS (Economics) Examination

- Describe the three components of the fiscal architecture required for Universal Health Coverage in Bangladesh. Evaluate the feasibility of implementing each component within the current fiscal environment. (15 marks)
- Using the Health Fiscal Ecology framework, analyze how non-health budget allocations in water, sanitation, nutrition, and social protection affect health outcomes in Bangladesh. Identify the three highest-impact cross-sector fiscal investments for health improvement. (12 marks)

Questions for MSS (Economics) Examination

- Critically evaluate the political economy constraints on public health spending expansion in Bangladesh. Why has the health budget as a share of GDP barely moved despite sustained economic growth? Drawing on comparative health financing evidence from Thailand and Vietnam, design a politically feasible ten-year Health Financing Transition Pathway for Bangladesh that specifies the fiscal, institutional, and organizational reforms needed at each stage. (35 marks)

CHAPTER SIXTY-ONE: EDUCATION FINANCE DEEP DIVE: FROM ENROLLMENT TRIUMPH TO LEARNING CRISIS AND THE FISCAL ARCHITECTURE OF GENUINE HUMAN CAPITAL

61.1 A New Definition: Human Capital Fiscal Productivity

Human Capital Fiscal Productivity is the rate at which each taka of public education spending generates verifiable, sustained improvement in the cognitive, social, and vocational capacities of the population receiving that spending, measured against the counterfactual of what those capacities would have been without public education investment. This definition departs from the common practice of evaluating education spending in terms of enrollment rates, teacher-student ratios, or classroom construction, and insists on measuring what students actually learn and become capable of doing as a result of the education investment.

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Bangladesh's education financing story is one of the most analytically instructive fiscal paradoxes in the developing world. The country has achieved extraordinary gains in enrollment: primary enrollment rates above 98 percent, near-universal school access within one kilometer of most rural communities, and one of the most dramatic reductions in the gender gap in secondary education of any country in the world. These are genuine and significant achievements, produced by sustained public investment combined with conditional cash transfer programs (the Primary Education Stipend and the Female Secondary Stipend) that successfully overcame the economic and social barriers to school attendance.

Yet alongside these enrollment achievements, Bangladesh faces a learning crisis of alarming proportions. National Assessment of Student Achievement data consistently shows that a large proportion of students completing primary school cannot demonstrate basic reading comprehension or arithmetic at the level expected by their curriculum. The World Bank's learning poverty rate for Bangladesh, defined as the proportion of 10-year-olds who cannot read and understand a simple text, has been estimated at above 60 percent. Students who are enrolled but not learning are not receiving the human capital that enrollment statistics promise. They are receiving attendance without education: a fiscal expenditure without the expected fiscal return.

61.2 The Education Budget: Quantity Versus Quality Investment

Bangladesh allocates approximately 11.68 percent of its national budget to education in FY2025-26, equivalent to approximately 1.72 percent of GDP, significantly below UNESCO's recommended minimum of 4 to 6 percent. While the nominal allocation has increased in absolute terms, its share of GDP has remained essentially stagnant, meaning that public education investment has grown no faster than the economy as a whole while the student population has grown and quality demands have intensified.

The composition of education spending reveals several structural misalignments between fiscal input and learning outcome. The largest share of the education budget goes to salaries for teachers and administrative staff, which account for approximately 70 to 75 percent of recurrent expenditure. This is not inherently problematic: teachers are the single most important input into learning quality, and well-compensated, professionally supported teachers produce better learning outcomes. The problem in Bangladesh is that salary expenditure has grown without corresponding improvements in teacher quality: entry qualifications for primary teachers remain low, pre-service training is brief and of variable quality, in-service professional development is inadequate, and teacher deployment is governed by systems that are vulnerable to political patronage rather than needs-based allocation.

A specific structural problem worth examining in detail is the madrasa sector. Bangladesh has a dual education system in which a substantial proportion of students, estimated between 15 and 20 percent of secondary school enrollment, attend madrasas (Islamic religious schools) rather than mainstream secondary schools. The two major madrasa streams, Aliya madrasas (under the Bangladesh Madrasa Education Board) and Qawmi madrasas (following independent curricula), receive very different levels of public funding. Aliya madrasas receive government funding through the MPO (Monthly Pay Order) system and their students participate in national examinations. Qawmi madrasas receive minimal public funding but were granted recognition of

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their highest degree (Dawra-e-Hadith) as equivalent to a master's degree in Islamic Studies through legislation passed in 2018.

The fiscal and human capital implications of the madrasa system are complex. Students educated primarily in religious subjects without adequate coverage of mathematics, science, and technology face systematic disadvantage in a labor market that increasingly rewards STEM skills. The fiscal challenge is that investing in madrasa quality improvement while ensuring curriculum breadth requires navigating deeply sensitive religious and political terrain.

61.3 The Learning Crisis: A Fiscal Diagnosis

Understanding why Bangladesh's education spending has not translated into adequate learning outcomes requires moving beyond budget analysis into the educational production function: the process by which fiscal inputs (teachers, textbooks, buildings, school feeding) combine with student characteristics (health, nutrition, pre-school preparation, home environment) and school management quality to produce learning outcomes.

Research by the BRAC Institute of Educational Development, the Education Watch initiative, and international researchers has identified several specific failure points in Bangladesh's educational production function. First, teacher absenteeism: studies have found that teacher absenteeism rates in primary schools range from 15 to 25 percent on any given day, meaning that a substantial portion of instructional time is simply absent. Second, low instructional time within school hours: even when teachers are present, the proportion of time actually spent on active instruction rather than administrative activities, student management, or informal breaks is significantly below best-practice levels. Third, inadequate teaching materials and their misuse: textbooks are provided free of charge by the National Curriculum and Textbook Board, a genuine achievement, but the pedagogical approaches that teachers use to engage students with these materials are often ineffective, relying on rote memorization rather than comprehension and application.

A new concept introduced here is the Fiscal Transmission Failure in Education: the systemic disconnection between the fiscal input into an education system and the learning outcome output, caused by failures at multiple stages of the educational production process that cannot be resolved through increased spending alone, requiring structural reforms in teacher quality, school management, and instructional practice that are institutionally and politically more difficult than simply allocating more money.

The fiscal corollary of this concept is important for budget design: additional education spending that flows through a system with high Fiscal Transmission Failure will generate low marginal returns in learning outcomes. The priority for Bangladesh's education budget should not simply be "spend more" but "spend better": restructuring the existing allocation toward inputs that address the specific failure points identified by learning outcome research.

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61.4 The Technical and Vocational Education Financing Deficit

Bangladesh's economic development strategy increasingly depends on expanding employment in manufacturing, services, and the digital economy beyond the ready-made garment sector. This requires a skilled workforce capable of operating in technologically evolving workplaces. The existing Technical and Vocational Education and Training (TVET) system, which is the fiscal vehicle for producing this workforce, is chronically underfunded, poorly managed, and disconnected from the actual skill needs of employers.

The FY2025-26 budget included a Tk 100 crore Youth Entrepreneurship Fund and raised loan limits for young entrepreneurs, signaling recognition of the importance of youth economic empowerment. However, these measures, while welcome, do not substitute for the foundational investment in TVET quality, curriculum relevance, and industry linkage that Bangladesh's skills development challenge requires.

A comprehensive TVET financing reform would require several fiscal commitments: capital investment in TVET facility modernization and equipment (current polytechnic institutes lack modern machinery for training in precision manufacturing, electronics, and digital fabrication); recurrent investment in higher TVET teacher salaries to attract technically qualified practitioners; development of industry levy schemes that create private employer contributions to training funds; and curriculum development investment to keep TVET programs aligned with actual labor market demand.

61.5 Exam Questions: Chapter Sixty-One

Questions for BEcon Examination

- Define Human Capital Fiscal Productivity. Apply this concept to evaluate Bangladesh's primary education budget in FY2025-26. Does high enrollment but low learning suggest high or low Human Capital Fiscal Productivity? What does this imply for education budget reform? (15 marks)
- Explain the concept of Fiscal Transmission Failure in Education. Identify three specific points in Bangladesh's educational production function where this failure occurs, and propose fiscal measures that could address each point. (15 marks)

Questions for BSS (Economics) Examination

- Analyze the human capital and fiscal implications of Bangladesh's dual education system (mainstream schools and madrasas). What are the challenges of achieving curriculum quality equity between the two systems through fiscal instruments? (15 marks)
- What reforms to Bangladesh's TVET financing system would be needed to produce a workforce adequate for the skill demands of the post-LDC economy? Estimate the fiscal cost of these reforms as a percentage of the education budget. (12 marks)

Questions for MSS (Economics) Examination

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- Apply the educational production function model to develop a comprehensive diagnosis of Bangladesh's learning crisis. Using this diagnosis, design a fiscally costed ten-year education quality improvement program that specifies the specific input changes needed, their costs, the institutional reforms needed to ensure effective implementation, and the expected learning outcome improvements. (35 marks)

CHAPTER SIXTY-TWO: THE FISCAL SOCIOLOGY OF INEQUALITY: TAX JUSTICE, SOCIAL PROTECTION, AND THE BUDGET'S DISTRIBUTIONAL CONTRACT WITH SOCIETY

62.1 A New Framework: Fiscal Sociology as a Discipline

Fiscal Sociology, a term associated with the work of Joseph Schumpeter, Rudolf Goldscheid, and more recently Monica Prasad and Isaac Martin, holds that the structure of public finance is not simply a technical arrangement but a social institution that reflects and reproduces the power relations, social norms, and distributive bargains of the society it inhabits. Tax systems do not arise from optimal tax theory applied by benevolent planners. They arise from historical conflicts between classes and interest groups over who shall bear the burden of funding the state, and who shall receive the benefits.

Applied to Bangladesh, Fiscal Sociology asks: who actually pays the taxes that fund the budget, who benefits from the spending the budget finances, and what does the gap between these two groups reveal about the distributional contract between the Bangladeshi state and its people?

The answer is stark. Bangladesh's tax system, as documented in the preceding chapters, relies predominantly on indirect taxes (VAT and customs duties) that take a larger share of income from poor households than from rich ones. A rural household spending 85 percent of its income on food, clothing, and fuel pays VAT on virtually every purchase. A wealthy household investing a large share of its income in financial assets, undeclared real estate, or overseas deposits pays little or no tax on these forms of wealth accumulation. The result is a tax system that is, in its net distributional impact, modestly regressive: it takes more from the poor relative to their income than from the rich.

This regressive tax structure is partially offset by the distributional impact of public spending. Programs targeting the poor, including the Old Age Allowance (Tk 3,200 per month for 57 lakh elderly citizens), the Widow's Allowance, the Vulnerable Group Development program, and the Maternal Health Voucher Scheme, direct resources toward lower-income households and provide genuine welfare improvement. Free primary education, the Primary Education Stipend, and the Female Secondary Stipend are fiscally significant redistributive instruments with documented poverty-reduction impacts.

However, a significant portion of public spending benefits non-poor households. Public university education, which is highly subsidized, predominantly benefits students from upper-income families who have the educational preparation to pass competitive entry examinations.

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Subsidized electricity and gas benefit all consumers, with large consumers (typically wealthier households and businesses) receiving the largest absolute subsidy. Public servants, who are disproportionately from urban and better-educated backgrounds, receive salary and pension benefits that redistribute toward this relatively advantaged group.

62.2 A New Doctrine: The Doctrine of Fiscal Distributive Mapping

The Doctrine of Fiscal Distributive Mapping holds that every budget should include, as a standard component of its documentation, a comprehensive analysis of the distributional incidence of both revenue collection and public spending, showing which income quintiles bear the burden of each major tax and receive the benefit of each major spending program. This mapping should be produced by an independent analytical body, not the Finance Ministry itself, and should be used as one of the primary inputs into budget allocation decisions.

This doctrine is not currently operationalized in Bangladesh's budget process. The gender budgeting initiative represents a partial parallel: it requires ministries to analyze the gender dimensions of their spending. But there is no equivalent income distributional analysis required across the budget as a whole. Estimates of tax incidence are conducted occasionally by researchers at BRAC, the CPD, and international institutions, but they do not feed systematically into the budget preparation process.

Implementing the Doctrine of Fiscal Distributive Mapping in Bangladesh would require several institutional developments: strengthening the statistical infrastructure for household income and expenditure data (the Bangladesh Household Income and Expenditure Survey, conducted every five years by BBS, is the primary source but has known coverage limitations); developing the analytical capacity within the Finance Division or an independent fiscal institution to conduct incidence analysis; creating a requirement in the budget circular process for ministries to assess the distributional impact of their largest spending programs; and establishing a reporting norm that presents this analysis to parliament alongside the budget itself.

62.3 Social Protection Architecture: Coverage Gaps, Targeting Failures, and the Path Toward a Universal Social Registry

Bangladesh's social protection system is extensive in its nominal coverage and reach, with over 100 programs across 25 ministries delivering cash transfers, food assistance, employment guarantees, and livelihood support. The FY2025-26 budget allocated approximately Tk 1,36,091 crore to the social security sector, representing approximately 17.2 percent of total budget expenditure.

This apparent generosity of social protection spending is substantially qualified by three structural problems. First, beneficiary selection in many programs is subject to capture by local political networks. Rather than being determined by transparent, poverty-based criteria, allocation is influenced by local government representatives who may prioritize political supporters or co-religionists, creating both inclusion errors (non-poor beneficiaries receiving benefits) and exclusion errors (poor non-beneficiaries receiving no benefit). Second, transfer amounts are too small to provide meaningful protection. The Old Age Allowance of Tk 3,200

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per month, while a genuine safety net, is well below the cost of a minimum consumption basket in most urban areas. Third, the fragmentation of the system into over 100 separate programs with different registration requirements, different payment mechanisms, and different eligibility criteria creates a system that is expensive to administer, difficult to navigate for beneficiaries, and nearly impossible to coordinate or evaluate coherently.

The remedy for all three problems is a Universal Social Registry: a single, continuously updated database of all households in Bangladesh, their economic status, and the benefits they are currently receiving. A well-designed social registry, based on transparent poverty assessment criteria, would: eliminate inclusion errors by identifying ineligible beneficiaries; reduce exclusion errors by ensuring all eligible households are enrolled; enable efficient targeting of new programs; facilitate the gradual consolidation of the current 100-program system into a smaller number of well-funded, well-targeted programs; and provide a real-time platform for emergency response when new shocks create new vulnerability.

The 2020-21 COVID-19 response demonstrated, in real time, both the value and the absence of this infrastructure. The government's ability to rapidly identify and reach the most vulnerable was severely hampered by the lack of a comprehensive digital social registry. The lesson was clear and the FY2025-26 budget acknowledged it with commitments to strengthen the social registry. However, the institutional challenge of building such a registry, maintaining it current, ensuring its integrity, and integrating it with payment systems remains formidable.

62.4 A New Philosophy: Relational Fiscal Justice

The philosophical tradition of fiscal justice has been dominated by two approaches: the utilitarian approach, which evaluates tax-and-spend arrangements by their aggregate welfare effects; and the Rawlsian approach, which judges them by their impact on the least advantaged. Both are important, but both are somewhat abstracted from the lived experience of how fiscal arrangements affect the quality of the relationship between citizens and the state.

This textbook proposes an additional philosophical framework: Relational Fiscal Justice. This holds that a just fiscal system is one that reinforces rather than undermines the civic dignity and equal standing of all citizens before the state. A tax system that pursues the poor with aggressive enforcement while tolerating large-scale evasion by the wealthy does not merely redistribute less than it should; it communicates to poor citizens that they are the state's fiscal subjects while the wealthy are its privileged partners. A social protection system that makes poor citizens prove their poverty through humiliating and bureaucratically burdensome processes to receive Tk 3,200 per month while the wealthy receive implicit subsidies through tax holidays and below-cost energy without any application process does not merely allocate less than it should; it embodies an unequal social contract.

Relational Fiscal Justice demands attention to the procedural dimensions of fiscal arrangements alongside their distributional outcomes. This translates into specific policy prescriptions: simplified, dignity-respecting application processes for social protection; taxpayer rights charters that protect citizens from arbitrary assessment; transparent complaint mechanisms that work for

small taxpayers not just large corporations; and public education campaigns that frame tax compliance as a civic contribution rather than a coercive extraction.

62.5 Exam Questions: Chapter Sixty-Two

Questions for BEcon Examination

- Define Fiscal Sociology as a discipline. Apply it to analyze the distributional contract embedded in Bangladesh's FY2025-26 budget, identifying who bears the burden of taxation and who receives the primary benefits of spending. (15 marks)
- Explain the Doctrine of Fiscal Distributive Mapping. What institutional infrastructure would Bangladesh need to develop to implement this doctrine fully? What are the barriers to implementation? (12 marks)

Questions for BSS (Economics) Examination

- Identify the three structural problems with Bangladesh's social protection system. Design a Universal Social Registry architecture for Bangladesh that would address all three problems. What are the fiscal, technical, and political challenges of building such a registry? (15 marks)
- How does the philosophy of Relational Fiscal Justice differ from Rawlsian fiscal justice? Apply both frameworks to evaluate Bangladesh's current social protection system. Which framework provides the more useful practical guidance for social protection reform? (12 marks)

Questions for MSS (Economics) Examination

- Construct a comprehensive distributional analysis of Bangladesh's FY2025-26 budget. Using available data on tax incidence and public expenditure benefit incidence, estimate the net fiscal transfer to each income quintile. What do your results imply about the budget's contribution to inequality reduction? How does this compare with other South Asian economies? (35 marks)

CHAPTER SIXTY-THREE: THE DRAFT BUDGET FY2026-27: COMPREHENSIVE ARCHITECTURE, METHODOLOGY, AND TECHNICAL RATIONALE

63.1 The Conceptual Foundation of the Draft Budget FY2026-27

The Draft Budget for the fiscal year 2026-27 is presented in this chapter not as a formal government document but as an analytically constructed fiscal proposal grounded in the evidence, theories, principles, and institutional analysis developed throughout this textbook. It represents what a technically rigorous, philosophically coherent, and politically honest budget for Bangladesh would look like, given the macroeconomic constraints, institutional realities, and

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developmental imperatives that have been examined in detail across the preceding chapters and parts.

The macroeconomic context for the FY2026-27 budget is shaped by four defining realities. First, Bangladesh is expected to formally graduate from Least Developed Country status in November 2026, marking a transition that will permanently alter the trade preferences, financing access, and international standing of the economy and its fiscal framework. Second, the IMF's Extended Credit Facility arrangement, extended through 2026, will be concluding or transitioning, creating both a window of opportunity (to institutionalize the fiscal governance reforms pursued under the program before external pressure relaxes) and a risk (that the political economy of the next government, following anticipated national elections, may allow reform momentum to stall). Third, the banking sector cleanup, estimated to cost approximately 2.4 percent of GDP in fiscal space, will be at an early but critical implementation stage, with state bank restructuring and NPL resolution requiring budget support and political will simultaneously. Fourth, the global economic environment remains characterized by elevated uncertainty, with US tariff policy creating volatility in Bangladesh's export markets and climate-related weather events increasingly affecting agricultural output and infrastructure.

Within this context, the Draft Budget FY2026-27 must navigate between the Scylla of insufficient fiscal ambition (maintaining the status quo of chronic underinvestment in human development, inadequate social protection, and unrealized revenue potential) and the Charybdis of fiscal overreach (setting revenue targets and spending plans that exceed institutional capacity, recreating the authenticity deficit that has characterized previous expansionary budgets).

63.2 The Macroeconomic Framework: GDP, Inflation, and the Fiscal Stance

The Draft Budget FY2026-27 is built on the following macroeconomic projections, grounded in the IMF's January 2026 country report projections and adjusted for the specific trajectory of Bangladesh's economic recovery:

GDP growth is projected at 5.8 to 6.2 percent in real terms, reflecting a moderate recovery from the 3.3 percent growth of the first half of FY2025, supported by export recovery (exports projected to grow 12 percent in FY2026 as global trade patterns normalize), improving domestic investment as monetary policy gradually eases in response to declining inflation, and continued remittance inflows. The GDP growth projection is deliberately conservative relative to Bangladesh's historical trend, acknowledging that the structural reforms underway carry short-term disruption costs.

Inflation is projected to fall to 7.5 to 8 percent year-on-year by June 2026 and to further decline to 6.5 to 7 percent by end-FY2026-27, as the combined effects of monetary tightening and the normalization of global food and energy prices work through the system. The inflation trajectory is the most important single variable for the Draft Budget's social protection architecture, since inflation erodes the real value of cash transfer programs faster than any other shock.

The overall fiscal stance of the Draft Budget is modestly expansionary relative to FY2025-26, with a proposed deficit of 4.0 to 4.2 percent of GDP (compared with 3.6 percent in FY2025-26),

deliberately creating fiscal space for priority investments in the post-LDC transition, the banking sector cleanup, and the social protection expansion needed to address the poverty impact of the inflation-driven welfare deterioration of 2022-2024.

63.3 Total Budget Size and Its Composition

The Draft Budget FY2026-27 proposes a total outlay of approximately Tk 880,000 to 900,000 crore, representing a growth of approximately 11 to 14 percent above the FY2025-26 budget of Tk 790,000 crore. This growth rate is deliberately modest relative to the nominal increases of the 2014-2023 period, reflecting the principle of Fiscal Authenticity developed in Chapter One: the budget should be designed for what can actually be implemented, not for what sounds impressive.

The composition of the budget reflects several deliberate structural choices. The revenue budget is proposed at approximately Tk 610,000 to 620,000 crore, growing by approximately Tk 50,000 to 60,000 crore relative to FY2025-26, funded primarily by the revenue reforms underway (NBR split, VAT reform, compliance improvement) rather than by higher tax rates. The Annual Development Programme is proposed at Tk 255,000 to 260,000 crore, a modest 10 to 12 percent increase above the FY2025-26 ADP of Tk 230,000 crore, structured around a sharp rationalization of the project list toward high-impact, implementation-ready projects rather than the current pattern of including hundreds of projects with token allocations.

The interest payment burden remains large, projected at approximately Tk 140,000 to 145,000 crore (approximately 15.5 to 16 percent of total budget), reflecting the compound effect of previous borrowing decisions but slightly declining as a share of the total budget as new borrowing is more disciplined.

63.4 Revenue Architecture: From Ambition to Credibility

The Draft Budget proposes a National Board of Revenue (or its successor Revenue Management Division) target of Tk 535,000 to 545,000 crore, representing approximately a 7 to 9 percent increase above the FY2025-26 NBR target of Tk 499,000 crore. This increase is calibrated against the realistic improvement trajectory documented by the NBR's own MLTRS implementation assessment, rather than the historically unreachable stretch targets that previous budgets set.

The revenue architecture rests on three pillars that are both technically sound and institutionally achievable within the FY2026-27 timeframe. The first pillar is VAT modernization: full implementation of the electronic invoicing system for all VAT-registered businesses with turnover above Tk 50 lakh (the new lower threshold introduced in FY2025-26), combined with cross-matching of electronic invoice data with corporate income tax returns to identify underreported income. International evidence from countries including Brazil and Portugal suggests that mandatory electronic invoicing can increase VAT revenue by 15 to 25 percent within two years of implementation.

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The second pillar is income tax base broadening: using the Tax Identification Number integration with the National Identity Card system to identify and bring into the filing system the estimated 10 million individuals with taxable income who are not currently filing returns. Even if compliance rates among newly identified taxpayers are modest initially, each additional filer who establishes a filing history creates a long-term revenue asset.

The third pillar is corporate tax integrity: implementing the transfer pricing documentation requirements already in law but not systematically enforced, combined with enhanced audit of the largest corporate taxpayers, whose effective tax rates are systematically below the nominal rates due to exemptions, holidays, and accounting strategies that have not been rigorously challenged.

Non-tax revenue is proposed at Tk 70,000 to 75,000 crore, with improvements driven by rationalization of SOE dividend payments (as the state-owned enterprises are restructured and made financially more viable), increased fees for government services that have not been adjusted in years, and improved revenue from state land management.

63.5 Sectoral Allocation Architecture

The Draft Budget's sectoral allocation reflects the principles developed throughout this textbook, with particular application of the Capability-Centered Fiscal Design framework (Chapter One), the Social Infrastructure Continuum (Chapter Four), the Principle of Preventive Fiscal Priority (Chapter Sixty), and the doctrine of Fiscal Distributive Mapping (Chapter Sixty-Two).

Education receives a proposed allocation of Tk 115,000 to 120,000 crore, equivalent to approximately 13 to 13.5 percent of total budget, moving toward 2 percent of GDP. The increase above FY2025-26 is targeted specifically at quality improvement mechanisms rather than enrollment expansion: teacher professional development systems, learning materials improvement, school management strengthening, and TVET modernization. The allocation does not simply increase the overall envelope; it restructures it toward the specific failure points identified in Chapter Sixty-One's analysis of Fiscal Transmission Failure in Education.

Health receives a proposed allocation of Tk 55,000 to 58,000 crore, equivalent to approximately 6.2 to 6.5 percent of total budget and approximately 1.0 to 1.1 percent of GDP. The increase above FY2025-26 is directed primarily toward primary healthcare strengthening (Community Clinic staffing, essential medicine supply chains, maternal and child health), preventive public health infrastructure (water quality monitoring, disease surveillance, immunization cold chains), and the institutional groundwork for a national social health insurance scheme.

Social protection receives approximately Tk 152,000 to 155,000 crore, an increase above FY2025-26 that reflects both indexation of existing transfer amounts to recent inflation (restoring real value eroded since 2022) and expansion of coverage to include the estimated 4 million households that are currently eligible for social protection but not enrolled due to coverage gaps. This allocation is the most explicitly poverty-reducing component of the budget and represents the Draft Budget's most direct fiscal expression of the Rawlsian difference principle discussed in Chapter One.

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The ADP allocation of Tk 255,000 to 260,000 crore is organized around six strategic priority categories: climate resilience infrastructure (flood management, coastal protection, urban drainage), connectivity and economic infrastructure (roads completing incomplete networks rather than initiating new ones, river management, digital broadband to remaining uncovered areas), education and health capital investment (TVET facility modernization, district hospital upgrades, Community Clinic electrification and equipment), agricultural productivity (irrigation modernization, soil health programs, post-harvest loss reduction), institutional reform capital (digitization of government services, revenue administration systems, social registry development), and urban services (Dhaka city services, secondary city development).

63.6 The Deficit, Its Financing, and Debt Sustainability

The proposed deficit of Tk 200,000 to 210,000 crore (approximately 4.0 to 4.2 percent of GDP) is financed through a combination of domestic borrowing and external financing. Domestic financing through National Savings Certificates and Treasury bonds is proposed at approximately Tk 100,000 to 105,000 crore, a level consistent with avoiding excessive pressure on the banking system and maintaining interest rates at levels conducive to private investment recovery. External financing of Tk 95,000 to 105,000 crore is projected from multilateral sources (World Bank, Asian Development Bank, IMF program disbursements) and bilateral concessional lenders.

The debt sustainability analysis for this proposed deficit trajectory confirms that Bangladesh's public debt remains at moderate risk, with the debt-to-GDP ratio projected to stabilize around 38 to 40 percent over the medium term, below the IMF's indicative threshold for high risk. The critical determinant of debt sustainability, in addition to the deficit itself, is the growth rate of the economy: at projected growth rates of 5.8 to 6.2 percent, the economy grows faster than the real interest rate on public debt (which at current levels is in the range of 3 to 5 percent in real terms), creating a favorable debt dynamics where the debt-to-GDP ratio tends to decline over time absent new shocks.

63.7 The LDC Graduation Adjustment Window

A unique feature of the Draft Budget FY2026-27 is its explicit acknowledgment and management of the LDC graduation transition. With formal graduation expected in November 2026, the FY2026-27 fiscal year spans the pre-and-post-graduation period, making it the pivotal transition budget for Bangladesh's post-LDC fiscal architecture.

The graduation adjustment provisions in the Draft Budget include: a Post-LDC Competitiveness Fund of Tk 5,000 crore, allocated to support industries that will lose duty-free market access in graduating export markets and need to upgrade to remain competitive; enhanced investment in trade facilitation infrastructure (customs modernization, port efficiency, certification bodies for standards compliance) to reduce the cost of the regulatory compliance that replaces preference-based market access; and a Revenue Reconfiguration Technical Assistance facility that provides resources to the Revenue Management Division for the administrative changes needed to enforce the tariff regime changes that graduation requires.

The Draft Budget also initiates the process of calibrating domestic revenue targets to the post-graduation fiscal environment, recognizing that preferential financing from LDC-specific facilities will diminish and that Bangladesh must increasingly finance its development from its own revenue base and from commercial and near-commercial international financing.

63.8 Exam Questions: Chapter Sixty-Three

Questions for BEcon Examination

- What is the macroeconomic framework underlying the Draft Budget FY2026-27? Identify the four defining macroeconomic realities that shape the budget context and explain how each influences the proposed fiscal stance. (15 marks)
- Describe the three-pillar revenue architecture of the Draft Budget FY2026-27. Evaluate the feasibility of achieving the proposed revenue target within the current institutional environment. (15 marks)
- Explain the Post-LDC Competitiveness Fund proposed in the Draft Budget. Which sectors are most likely to need this support and why? (10 marks)

Questions for BSS (Economics) Examination

- Critically evaluate the sectoral allocation priorities of the Draft Budget FY2026-27. Does the proposed education and health allocation adequately address the structural deficits identified in Chapters Sixty and Sixty-One? Justify your answer with reference to the proposed allocations and the needs analysis in those chapters. (15 marks)
- Assess the debt sustainability implications of the proposed deficit of 4.0 to 4.2 percent of GDP in the Draft Budget. Under what conditions would this level of deficit become unsustainable? (12 marks)

Questions for MSS (Economics) Examination

- Construct a comprehensive political economy analysis of the Draft Budget FY2026-27. Identify the organized interests that would benefit from and resist each major structural choice in the budget. Assess the prospects for the budget's implementation given Bangladesh's current political transition context. (30 marks)
- Apply the Doctrine of Temporal Fiscal Equity (Chapter Four) to evaluate the long-term implications of the Draft Budget's debt trajectory. How would this doctrine require modifying the Draft Budget's financing architecture? (25 marks)

CHAPTER SIXTY-FOUR: WHY THE DRAFT BUDGET IS REASONABLE: A PHILOSOPHICAL, TECHNICAL, AND EMPIRICAL DEFENSE

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64.1 The Question of Reasonableness in Fiscal Design

Budget reasonableness is not a simple concept. A budget that is reasonable in its ambition may be unreasonable in its implementation assumptions. A budget that is technically well-designed may be politically unreasonable in the sense of lacking the political support needed for implementation. A budget that is fiscally conservative may be socially unreasonable in the sense of failing to address urgent human welfare needs that no other institution will address.

This chapter defends the Draft Budget FY2026-27 as reasonable across five distinct dimensions: fiscal sustainability, institutional feasibility, developmental necessity, distributional justice, and transition consistency. This five-dimensional reasonableness framework is itself a new analytical contribution: the standard evaluation of budget proposals focuses primarily on fiscal sustainability (will the deficit be financed without crisis?) and sometimes on distributional equity. The additional dimensions of institutional feasibility, developmental necessity, and transition consistency are equally important but receive less systematic attention.

64.2 The Fiscal Sustainability Argument

The fiscal sustainability case for the Draft Budget rests on the debt dynamics analysis presented in Chapter Sixty-Three. A deficit of 4.0 to 4.2 percent of GDP, financed through a combination of concessional external borrowing and domestic borrowing at current interest rates, in an economy growing at 5.8 to 6.2 percent in real terms and 10 to 11 percent in nominal terms, produces a debt trajectory that is declining in the medium term. The debt-to-GDP ratio, which stood at approximately 36 to 38 percent in FY2025, would under this scenario remain broadly stable or marginally decline over five years, comfortably within Bangladesh's assessed risk category of moderate debt distress risk.

The Draft Budget is more expansionary than the FY2025-26 budget's 3.6 percent deficit. This is deliberate and defensible. The IMF itself, in its January 2026 assessment, projected that fiscal space created by reforms in FY2026-27 would allow a 2.4 percent of GDP increase in priority spending, covering both banking sector cleanup costs and expanded social and development investment. The Draft Budget's fiscal stance is consistent with this IMF projection, meaning it is not simply an academically constructed wish list but reflects the fiscal space that the Fund's own analysis of Bangladesh's situation identifies as available.

A new concept introduced here is the Reasonableness Floor and Ceiling of Fiscal Policy: the fiscal space between which a budget is both sustainable (above the floor where debt dynamics become dangerous) and adequate (below the ceiling where fiscal restraint causes unacceptable human welfare costs). The Draft Budget is positioned within this space deliberately, with the specific choice of 4.0 to 4.2 percent deficit reflecting a balance between the sustainability floor (approximately 3.5 to 3.8 percent given Bangladesh's current debt trajectory) and the ceiling defined by the identified investment needs in education, health, social protection, and transition support.

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64.3 The Institutional Feasibility Argument

A budget is institutionally feasible to the extent that the government's administrative apparatus can actually implement the programs it funds and collect the revenues it projects. The history of Bangladesh's budget is replete with examples of fiscally ambitious budgets that failed the institutional feasibility test: revenue targets that the NBR had no realistic prospect of meeting, ADP projects that could not be implemented because of procurement capacity constraints, social protection programs that could not be delivered because of beneficiary identification weaknesses.

The Draft Budget addresses institutional feasibility through three specific design choices. First, it sets the revenue target at a level that represents an achievable improvement from the current trajectory, based on the revenue reform measures already in implementation, rather than a jump to a dramatically higher level that would require reforms not yet underway. Second, it reduces the ADP project count through explicit reprioritization, focusing the available institutional bandwidth on the highest-priority projects rather than spreading it thinly across a vast portfolio. Third, it funds institutional development explicitly as a budget priority, with allocations for revenue administration modernization, social registry development, and government service digitization that are necessary preconditions for the budget's other ambitions to be realized.

A new principle articulated here is the Principle of Budget-Institution Alignment: the axiom that a budget is only as strong as the institutional infrastructure available to implement it, and that a budget that outstrips its implementing institutions in ambition is not bold but wasteful, diverting analytical and political energy toward goals that cannot be achieved while the institutional gaps that prevent achievement remain unfunded and unaddressed.

64.4 The Developmental Necessity Argument

The developmental case for the Draft Budget's expenditure levels is grounded in the analysis of Bangladesh's human development deficits across Chapters Sixty and Sixty-One. A country where 6.5 million people are pushed into poverty each year by health costs, where more than 60 percent of 10-year-olds cannot read with basic comprehension, where 85 percent of the workforce is in the informal sector without social protection, and where the entire post-LDC economic transition depends on a skilled workforce that the TVET system is not currently producing, cannot address these deficits through fiscal conservatism alone.

The developmental necessity argument holds that the costs of not investing at the levels proposed in the Draft Budget are not zero. They compound over time through human capital accumulation failures, through health system costs that grow as preventable conditions worsen, through social instability that chronic inequality and economic exclusion generate, and through the economic competitiveness losses that an undereducated and unhealthy workforce imposes on the entire economy. These are costs that standard fiscal sustainability analysis does not adequately capture because they materialize as lower future growth rather than as explicit fiscal items.

A new concept relevant here is the Fiscal Inaction Cost: the present value of the future economic, social, and fiscal costs that result from failing to make investments that the evidence indicates are required for sustainable development. The Fiscal Inaction Cost of not expanding primary

healthcare in Bangladesh includes the future medical costs of untreated chronic disease, the future productivity losses from preventable morbidity, and the future social protection costs of impoverished households whose illness has depleted their savings. These future costs, properly discounted, are in all likelihood larger than the present cost of adequate healthcare investment.

The Draft Budget's developmental expenditure is therefore not generosity but economy: it is investing today to avoid larger fiscal obligations tomorrow.

64.5 The Distributional Justice Argument

The distributionally just budget is one that progressively reduces the structural disparities in access to public services, economic opportunity, and social protection that characterize Bangladesh's inequality profile. Bangladesh is not among the world's most unequal countries by the Gini coefficient, but it exhibits significant and growing inequality in the quality of services received by different income groups, in the geographic distribution of public investment, and in the access to economic opportunity between urban and rural, formal and informal, educated and uneducated populations.

The Draft Budget's proposed increases in social protection (indexed to inflation and expanding coverage to the currently uncovered eligible population), its targeted education quality investment (focused on the schools serving the least advantaged children), its primary healthcare expansion (focused on community-level services most important to rural low-income populations), and its urban infrastructure investment (focused on secondary cities rather than only Dhaka) collectively represent a distributional reorientation of the budget toward greater equity.

This reorientation is not politically costless. Reducing tax holidays that benefit established businesses, redirecting ADP resources from prestige mega-projects toward community-level services, and expanding social protection coverage all involve political tradeoffs with organized constituencies that prefer the status quo. The Draft Budget is reasonable in its distributional ambition precisely because it pursues these reorientations at a pace that is ambitious but not revolutionary: large enough to make a meaningful difference, modest enough to remain politically navigable.

64.6 The Transition Consistency Argument

The transition consistency argument holds that the Draft Budget is reasonable because it is coherent with the trajectory of the fiscal, institutional, and economic transitions that Bangladesh is simultaneously navigating: the IMF program transition, the LDC graduation transition, the banking sector restructuring transition, and the NBR reform transition.

Each of these transitions creates both obligations and opportunities for the FY2026-27 budget. The IMF program, if successfully concluded on the terms agreed in the ECF arrangement, creates a legacy of improved fiscal governance norms that the Draft Budget is designed to institutionalize. The LDC graduation creates a revenue challenge (losing preferential financing) and a competitiveness challenge (losing trade preferences) that the Draft Budget explicitly

addresses through the LDC Graduation Adjustment provisions. The banking sector restructuring creates a fiscal cost that the Draft Budget accommodates within its deficit and financing plan. The NBR reform creates a window for genuine revenue performance improvement that the Draft Budget's revenue targets exploit but do not overly rely on.

A new philosophical framework synthesizing these arguments is what this textbook terms the Philosophy of Achievable Transformation: the recognition that transformative development requires fiscal ambition, but that ambition without institutional feasibility is not transformation but disappointment. The Draft Budget embodies this philosophy by being more ambitious than the FY2025-26 budget in its developmental and distributional commitments, but more humble than many previous budgets in its revenue projections and ADP scale, acknowledging that the path to Bangladesh's fiscal future runs through improved institutions, not through numbers that look good in a budget speech but prove hollow in implementation.

64.7 Addressing the Critiques: A Dialogue with Skepticism

A serious defense of the Draft Budget must engage with the strongest objections to it, rather than strawmanning those who would design the budget differently.

The fiscal conservative critique holds that the expansion of the deficit from 3.6 to 4.0 to 4.2 percent is fiscally irresponsible and risks recreating the macroeconomic instability of 2022-2024. The response is that the 2022-2024 instability was driven primarily by monetary policy failures (delayed interest rate adjustment, excessive monetary financing of the deficit) and external shocks (Russia-Ukraine war price effects), not by a structural deficit at the level the Draft Budget proposes. The current monetary policy framework, with positive real interest rates and Bangladesh Bank independence strengthened by the interim government, provides the macroeconomic anchor that was absent in 2022-2024. The deficit level is also consistent with the IMF's own projections for the fiscal space available in FY2026-27.

The radical transformationist critique holds that the Draft Budget is insufficiently ambitious: that Bangladesh needs a much larger investment in health, education, and social protection, and that fiscal conservatism in the face of massive human development deficits is a political choice that imposes enormous costs on the poorest Bangladeshis. The response is that the Draft Budget represents a meaningful step toward greater developmental investment, within the constraints of institutional feasibility and fiscal sustainability that cannot be wished away. A budget that promises Tk 100,000 crore for health but cannot implement more than Tk 40,000 crore of it is worse than a budget that promises Tk 58,000 crore and actually delivers it. The Draft Budget chooses credibility over theater.

The political realism critique holds that the Draft Budget's structural choices, particularly the reduction of tax holidays, the rationalization of the ADP, and the expansion of social protection coverage, will face political resistance that no budget document can overcome. This is a serious critique. The response is that the budget is a proposal, not a guarantee. Its adoption and implementation depends on the political will of the government that presents it, the accountability mechanisms that civil society and parliament can deploy, and the institutional momentum generated by the reform processes underway. A budget that is technically sound but

politically difficult is not unreasonable; it is the beginning of a political conversation that must be won.

64.8 The Budget as a Statement of Civilizational Commitment

At its deepest level, a national budget is not primarily a technical document. It is a statement about what a society believes it owes its members and what it is willing to invest collectively in their shared future. The Draft Budget FY2026-27, as constructed in this textbook, embodies a specific set of commitments: that every Bangladeshi child deserves an education that actually teaches them to read and think; that every Bangladeshi adult deserves access to basic healthcare without facing financial ruin; that every elderly Bangladeshi who worked a lifetime to build this country deserves a social protection system that treats them with dignity; and that every taka of public revenue, raised from citizens through the authority of the state, deserves to be deployed honestly, efficiently, and transparently in the service of those citizens.

These commitments are not new. They have been articulated in every budget speech since 1972, in the language of development and prosperity and social justice that Bangladeshi finance ministers deploy with unfailing optimism. What is new in the approach this textbook has developed is the insistence that these commitments must be operationalized through specific, measurable institutional changes rather than aspirational rhetoric, and that the reasonableness of a budget must be judged not by its ambition but by the ratio of its ambition to its institutional capacity to deliver.

Bangladesh in 2026 stands at a genuinely pivotal moment. It has achieved extraordinary economic growth over five decades of independence. It has dramatically reduced poverty, expanded education access, reduced maternal and infant mortality, empowered women through labor market participation and education policy, and built infrastructure that would have been unimaginable at independence. These are real achievements, built on the labor of a resilient and innovative people and the fiscal choices of successive governments that, whatever their political failings, maintained a degree of developmental commitment through sustained public investment.

The challenge ahead is to consolidate these achievements, address the deep structural deficits that growth alone has not resolved, and build the institutional fiscal architecture that can sustain Bangladesh's development through the post-LDC era, through the climate challenges of the coming decades, and through the technological transformations that will reshape the global economy. The Draft Budget FY2026-27 is a contribution to that architecture, designed with the analytical seriousness that a decision of this magnitude deserves.

64.9 Exam Questions: Chapter Sixty-Four

Questions for BEcon Examination

- Explain the five-dimensional reasonableness framework used to evaluate the Draft Budget FY2026-27. Apply two of these dimensions to evaluate whether the proposed deficit of 4.0 to 4.2 percent of GDP is reasonable. (20 marks)

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- Define the Fiscal Inaction Cost. How does this concept strengthen the developmental necessity argument for the Draft Budget's proposed increases in health and education spending? (12 marks)
- What is the Philosophy of Achievable Transformation? Apply it to explain why the Draft Budget sets a more modest revenue target than historical practice despite proposing larger spending. (10 marks)

Questions for BSS (Economics) Examination

- Critically evaluate the fiscal conservative critique of the Draft Budget FY2026-27. What evidence does the Draft Budget's defense offer for the position that the proposed deficit level is fiscally sustainable? (15 marks)
- Using the Principle of Budget-Institution Alignment, evaluate whether the Draft Budget's ADP of Tk 255,000 to 260,000 crore is appropriately calibrated to Bangladesh's current project implementation capacity. (12 marks)

Questions for MSS (Economics) Examination

- Write a comprehensive critical assessment of the Draft Budget FY2026-27, engaging seriously with all five dimensions of the reasonableness framework. For each dimension, identify the strongest argument for and the strongest argument against the Draft Budget's position. Conclude with a judgment about whether the Draft Budget, on balance, deserves to be described as reasonable, with a rigorous justification for your conclusion. (40 marks)
- Apply the Philosophy of Achievable Transformation to the broader question of Bangladesh's fiscal future. What institutional developments, over a ten-year horizon, would be required for Bangladesh to move from a budget that is defensible to one that is genuinely transformative in the capability-centered sense? Design the institutional transformation roadmap, specifying the fiscal investments, governance reforms, and political economy strategies that the roadmap requires. (35 marks)

PART EIGHT: CONCLUDING SYNTHESIS

Part Eight has moved through eight closely related analytical domains to construct a comprehensive picture of Bangladesh's fiscal reality, its deepest institutional challenges, and the architecture of its most promising pathway forward. The chapters have examined the revenue administration revolution and its turbulent implementation; the deep patterns of Fiscal Hemorrhage and the accountability infrastructure needed to address them; the Fiscal Shadow Balance Sheet of banking and energy sector contingent liabilities; the structural deficits in public health and education financing and their human capital costs; the Fiscal Sociology of inequality embedded in Bangladesh's tax and spending structure; the comprehensive architecture of a credible Draft Budget FY2026-27; and the philosophical, technical, empirical, and political defense of why that budget represents a reasonable and achievable contribution to Bangladesh's development.

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Several intellectual themes cut across all eight chapters and deserve to be made explicit in this synthesis.

The first is the systemic nature of Bangladesh's fiscal challenges. No single institution, policy, or allocation decision can resolve what is fundamentally a system-level problem: a fiscal architecture whose institutional capacity, political economy dynamics, informational infrastructure, and cultural norms of tax compliance all need to evolve simultaneously for the system to perform at the level Bangladesh's development needs require. Incremental reforms within the existing system are necessary but insufficient. Systemic transformation requires a different quality of political leadership, institutional investment, and civic engagement than Bangladesh has consistently been able to sustain.

The second is the inseparability of fiscal reform from democratic politics. The fiscal choices examined in this part, from the NBR split to the banking sector cleanup to the social protection expansion, are not purely technical decisions. They are deeply political ones, involving redistribution of power, resources, and economic opportunity among different groups in Bangladeshi society. The interim government's reform agenda, pursued in the unusual political space created by the July Mass Uprising and the absence of a parliament, has made significant institutional moves that a normal elected government might have found more difficult to initiate. Whether the reforms survive the transition to democratic politics is the most important open question in Bangladesh's fiscal governance, and it is one that only the people of Bangladesh, through their democratic choices, can ultimately answer.

The third is the inescapable importance of evidence. Throughout Part Eight, the analysis has returned repeatedly to the gap between what fiscal documents claim and what fiscal data shows: the gap between stated allocations and actual service delivery, between nominal revenue targets and actual revenue collections, between budget speeches about poverty reduction and the persistent reality of catastrophic health expenditure. Closing these gaps requires not just better policies but better data: stronger household surveys, more consistent administrative data systems, more independent fiscal monitoring, and more honest public communication about what the budget is actually achieving.

The fourth is the centrality of time. Bangladesh's fiscal challenges are not static. The LDC graduation creates a permanent structural shift. The banking sector cleanup creates a multi-year fiscal cost but also a long-term efficiency gain. The revenue reforms underway will take years to reach their potential. The human capital investments needed today will produce their returns over a generation. The budget, as a one-year document, is necessarily a partial instrument for challenges that operate on much longer timescales. The three-year MTBF framework, the ten-year MLTRS, and the longer-horizon development plans of Vision 2041 are attempts to embed the budget within a longer temporal architecture. Part Eight has tried to honor that temporal complexity in its analysis.

What emerges from Part Eight is not a counsel of despair but a counsel of rigor: the recognition that Bangladesh's fiscal challenges are immense but not unique, that the tools for addressing them exist and have been demonstrated in comparable countries, and that the intellectual work of understanding those challenges in their full institutional, political, historical, and philosophical

depth is itself a necessary contribution to the practical work of change. This textbook has been written in that spirit: as an instrument of rigorous understanding in service of genuine transformation.

Comprehensive Review Questions for Part Eight

Questions for BEcon Final Examination

1. Across the eight chapters of Part Eight, identify the three concepts you consider most intellectually original and most practically important for Bangladesh's fiscal reform agenda. Explain each concept clearly and justify your choices. (30 marks)
2. The Draft Budget FY2026-27 proposes a deficit of 4.0 to 4.2 percent of GDP, larger than the 3.6 percent of FY2025-26. Using the reasonableness framework developed in Chapter Sixty-Four and the macroeconomic analysis of Chapter Sixty-Three, write a structured argument for why this fiscal stance is defensible. (25 marks)
3. Compare and contrast the concepts of Fiscal Hemorrhage, Fiscal Shadow Balance Sheet, and Fiscal Transmission Failure. How are they related to each other, and what would addressing all three simultaneously require from Bangladesh's fiscal governance system? (20 marks)
4. The Principle of Participatory Reform Architecture (Chapter Fifty-Seven) and the Philosophy of Achievable Transformation (Chapter Sixty-Four) both address the relationship between ambition and institutional reality in fiscal reform. Are they consistent with each other or in tension? Develop your argument with reference to specific examples from Part Eight. (20 marks)

Questions for BSS (Economics) Comprehensive Examination

1. Construct a comprehensive analysis of Bangladesh's distributional fiscal contract, drawing on the fiscal sociology framework of Chapter Sixty-Two, the health financing analysis of Chapter Sixty, and the education financing analysis of Chapter Sixty-One. Who gains and who loses from the current fiscal system? What specific reforms in the Draft Budget FY2026-27 would shift this distributional contract in a more equitable direction? (35 marks)
2. The NBR reform of 2025 is described in Chapter Fifty-Seven as generating a significant Reform Institutionalization Gap. Using principal-agent theory, organizational behavior research, and Bangladesh-specific evidence, explain why this gap emerged and design an institutional management strategy that could have reduced it. Apply your strategy to the ongoing implementation challenge of the Revenue Management Division. (30 marks)
3. The Universal Social Registry is proposed in Chapter Sixty-Two as the key institutional instrument for transforming Bangladesh's social protection system. Design the architecture of a Universal Social Registry for Bangladesh: the data it should contain, the institutional body that should manage it, the governance arrangements that should protect its integrity, the linkage mechanisms to payment systems, and the fiscal cost of building and maintaining it. (25 marks)

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Questions for MSS (Economics) Comprehensive Examination

1. This part has introduced numerous new theoretical concepts, including Fiscal Hemorrhage, the Fiscal Shadow Balance Sheet, Institutional Capture Sclerosis, the Reform Announcement Effect versus the Reform Institutionalization Gap, Fiscal Transmission Failure in Education, Health Fiscal Sovereignty, Relational Fiscal Justice, the Reasonableness Floor and Ceiling, the Philosophy of Achievable Transformation, and Fiscal Inaction Cost. Select five of these concepts, provide a rigorous analytical definition of each, evaluate the intellectual contribution of each relative to existing fiscal theory, and apply all five in an integrated analysis of a single policy question: should the next elected government of Bangladesh continue or reverse the fiscal reforms pursued by the interim government in 2024-2026? (50 marks)
2. Write a comprehensive and critical review of the Draft Budget FY2026-27 as constructed in Chapter Sixty-Three, from the perspective of a senior economist at the Centre for Policy Dialogue. Your review should: evaluate the macroeconomic framework; assess the revenue target credibility; analyze the sectoral allocations against the priorities identified in the sectoral chapters; evaluate the debt sustainability analysis; identify the three most important structural weaknesses of the draft; and propose specific modifications to address each weakness, with fiscal costings for your proposed changes. (45 marks)
3. The final paragraph of the Concluding Synthesis identifies four intellectual themes: the systemic nature of fiscal challenges, the inseparability of fiscal reform from democratic politics, the inescapable importance of evidence, and the centrality of time. Drawing on the entire intellectual apparatus of this textbook, construct a comprehensive theory of fiscal transformation in a developing democracy that integrates all four themes. What does this theory imply for Bangladesh's fiscal trajectory over the next decade? (40 marks)

PART NINE: THE FUTURE FISCAL STATE OF BANGLADESH: SCENARIO ANALYSIS, CIVILIZATIONAL ARCHITECTURE, AND THE PHILOSOPHY OF FISCAL BECOMING

Preface to Part Nine

Every textbook that attempts to capture a living institution in a historical moment faces a peculiar epistemological challenge. The institution keeps moving. The analysis, however carefully constructed, is anchored to a particular slice of time, and the world it describes is already shifting as the ink dries. This is especially true of a book about Bangladesh's fiscal architecture at the precise moment when the country stands at the intersection of four transformations simultaneously: the democratic transition from an interim government to an elected parliament following national elections in February 2026; the formal LDC graduation expected in November 2026; the banking sector restructuring that will consume fiscal resources and institutional energy for several years; and the climate emergency that is not a future scenario but a present operational reality for a country that loses an estimated 0.7 percent of GDP

annually to tropical cyclones alone and faces a projected annual climate finance need of USD 12.5 billion, equivalent to approximately 3 percent of GDP.

Part Nine does not attempt to pretend that the future is known. It attempts something more intellectually honest and more intellectually demanding: to construct a rigorous analytical framework for thinking about Bangladesh's fiscal future, to map the scenario space within which that future will unfold, to identify the structural variables that will determine which scenario materializes, and to articulate the philosophical, institutional, and technical architecture that would enable Bangladesh to navigate toward its best possible fiscal future rather than drifting toward its worst.

The chapters of Part Nine are organized around five major domains. The first three chapters construct the scenario analysis framework: the baseline, optimistic, and adverse scenarios for Bangladesh's fiscal trajectory over the next decade, grounded in the macroeconomic realities documented in Part Eight and the structural analysis throughout this textbook. The next three chapters examine the three most consequential structural forces shaping Bangladesh's fiscal future that have not yet received dedicated chapter-level treatment: the digital economy transformation and its implications for both revenue and expenditure; the climate finance architecture and the fiscal dimensions of environmental transition; and the geopolitics of aid, debt, and Bangladesh's position in the post-LDC international financial architecture. The following two chapters develop the deeper philosophical and sociological dimensions of fiscal becoming: the fiscal sociology of compliance culture transformation, and the social contract reconsidered as a civilizational commitment between the Bangladeshi state and its people. The final two chapters synthesize the entire textbook: a comprehensive vision of the fiscal state Bangladesh needs to become by 2041 and the explicit intellectual contribution of this textbook to the ongoing project of understanding and improving Bangladeshi public finance.

Part Nine is designed to be read as a conclusion that is also a beginning: a conclusion to the analytical journey that this textbook has organized, and a beginning to the practical work of fiscal transformation that this textbook has been written to support.

CHAPTER SIXTY-FIVE: THE SCENARIO FRAMEWORK FOR BANGLADESH'S FISCAL FUTURE: METHODOLOGY AND CONSTRUCTION

65.1 A New Concept: Fiscal Scenario Epistemology

Fiscal scenario analysis is a well-established technique in government planning and international development finance. The IMF publishes alternative scenarios in its World Economic Outlook. World Bank Development Updates routinely present baseline, upside, and downside scenarios. Bangladesh's own Finance Division publishes medium-term fiscal projections. What is less commonly articulated is the epistemological status of these scenarios: what they claim to represent, what they actually can represent, and how they should inform decision-making.

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This textbook introduces the concept of Fiscal Scenario Epistemology: the study of what fiscal scenarios can and cannot tell us, and what cognitive and institutional pathologies emerge when scenario analysis is treated as prediction rather than as structured imagination.

The crucial distinction is between scenarios and forecasts. A forecast claims to predict the most likely future state of a variable, based on extrapolation from past trends and current conditions. A scenario claims to describe a coherent and internally consistent future state that could materialize under specified assumptions about key variables. Scenarios are not forecasts. They are disciplined thought experiments that force decision-makers to confront the full range of conditions they might face and to design strategies that are robust across that range rather than optimized for a single assumed future.

The three scenarios constructed in this chapter follow a standard scenario methodology adapted for Bangladesh's specific context. They are named not with value-laden terms like "best" and "worst" but with descriptive labels that capture the essential character of each: the Incremental Consolidation Scenario, the Structural Transformation Scenario, and the Fiscal Fracture Scenario. Each scenario is fully specified in terms of macroeconomic trajectory, institutional development, revenue performance, spending composition, debt dynamics, and distributional outcomes. Each is internally consistent: the assumptions that characterize each scenario are chosen to hang together as a plausible account of how multiple variables might interact.

65.2 The Structural Variables: What Drives Bangladesh's Fiscal Scenarios

Before constructing the scenarios, it is necessary to identify the structural variables whose values will most powerfully determine which scenario materializes. Fiscal scenario analysis is only as useful as its identification of the key drivers is accurate.

Seven structural variables are identified as the primary determinants of Bangladesh's fiscal trajectory over the period 2026 to 2036.

The first is Revenue Administration Performance. The transformation of Bangladesh's tax administration through the NBR split and the MLTRS implementation will determine whether the tax-to-GDP ratio begins moving meaningfully toward the 10.5 percent target or remains mired below 8 percent. This is the single most important structural variable because it determines the entire resource envelope within which all other fiscal decisions are made. Revenue administration performance is determined by the interaction of institutional design quality, political will to enforce against powerful interests, digital transformation progress, and the stability of the reform process through democratic transitions.

The second is Banking Sector Resolution. The NPL crisis, which reached 35.73 percent of total banking sector disbursed loans as of September 2025 according to recent data, is a ticking fiscal time bomb. Resolution can proceed in three ways: orderly restructuring, which imposes fiscal costs but rebuilds the system's credit intermediation function; indefinite forbearance, which preserves the appearance of solvency while allowing the problem to compound; or disorderly crisis, in which bank runs, liquidity failures, and regulatory emergency actions create sudden,

unmanaged fiscal costs. The scenario chosen for banking sector resolution will have profound implications for Bangladesh's fiscal trajectory.

The third is LDC Graduation Management. Whether Bangladesh successfully manages the LDC graduation transition, scheduled for November 2026 with the new government having requested a deferment, will determine the trajectory of its export competitiveness and access to concessional finance. Even if deferment is granted, Bangladesh will ultimately face this transition. The structural variable is not whether graduation happens but how well-prepared Bangladesh is when it does.

The fourth is Climate Shock Frequency and Severity. Bangladesh's climate vulnerability is not a future risk but a present cost. Annual losses to tropical cyclones alone already reach approximately USD 1 billion. Rising sea levels threaten coastal agricultural land that currently supports tens of millions of rural livelihoods. Salinity intrusion into freshwater systems and groundwater is accelerating. The frequency and severity of climate shocks over the next decade will directly affect both the revenue base (through agricultural output effects) and the expenditure needs (through disaster response and reconstruction) of the budget.

The fifth is Political Stability and Reform Continuity. The February 2026 elections have installed a new government, but the sustainability of the fiscal reform program that the interim government pursued is not guaranteed. Reform continuity across political transitions is a critical structural variable. Countries that maintain institutional reform momentum across electoral cycles achieve much better fiscal outcomes than countries where reforms are reversed with each change of government.

The sixth is Global Trade Environment. Bangladesh's export-dependent economy is acutely sensitive to global trade conditions. The US tariff regime, European Union market access terms, EU ESG compliance requirements, and global demand for ready-made garments will all affect export revenues, which are the primary engine of private sector growth and, through that growth, of the tax base.

The seventh is Digital Economy Penetration. The speed at which Bangladesh's economy digitalizes, both in terms of business formalization through digital payment systems and e-commerce platforms, and in terms of government service digitalization through the Nagorik Sheba platform and iBAS++ expansion, will determine both the revenue potential (through digital audit trails that reduce evasion opportunities) and the expenditure efficiency (through reduced transaction costs in service delivery) of the fiscal system.

65.3 The Incremental Consolidation Scenario: Stability Without Transformation

The Incremental Consolidation Scenario describes a Bangladesh in which the reform momentum of 2024-2026 is partially preserved but substantially diluted through the normal pressures of democratic governance, and in which the structural fiscal challenges are managed but not resolved over the 2026-2036 period.

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In this scenario, the Revenue Management Division (successor to the NBR) achieves modest improvements in revenue collection, moving the tax-to-GDP ratio from approximately 6.8 percent in FY2025 to approximately 9.0 percent by FY2036. This improvement is sufficient to expand the resource envelope modestly but insufficient to finance the quality leap in public services that Bangladesh's development needs require. The MLTRS target of 10.5 percent by FY2035 is not met.

Banking sector resolution proceeds slowly, with the government providing capital injections to the weakest state-owned banks over several years rather than undertaking the structural reforms needed to change governance and operational quality. The fiscal cost of these injections is manageable but persistent, consuming approximately 0.5 to 0.8 percent of GDP annually in direct and indirect costs for most of the decade.

LDC graduation, whether on schedule or deferred by two to three years, is managed through a combination of bilateral trade agreements, Enhanced GSP Plus negotiations with the European Union, and bilateral US trade discussions, securing partial continuation of preferential market access for the garment sector for a transition period. Export diversification proceeds slowly, with garments maintaining above 70 percent of export value throughout the decade.

Climate shocks continue to impose annual costs of 0.8 to 1.2 percent of GDP, with the budget accommodating these through contingency reserves and post-disaster international assistance, but without the structural adaptation investment needed to reduce vulnerability.

The distributional outcome of the Incremental Consolidation Scenario is modest improvement in poverty indicators, driven primarily by continued economic growth at 5.5 to 6 percent annually, but with persistent inequality and continuing out-of-pocket healthcare catastrophe for a large proportion of the population.

This scenario produces a Bangladesh in 2036 that is meaningfully richer than today, has improved fiscal institutions relative to 2026, and has navigated its transition challenges without catastrophe, but has not achieved the structural transformation that would put it on a trajectory toward high-income country status or Universal Health Coverage within a generation.

65.4 The Structural Transformation Scenario: Reform Ambition Realized

The Structural Transformation Scenario describes a Bangladesh in which the reform program initiated in 2024-2026 is maintained and accelerated through sustained political will, institutional learning, and favorable external conditions.

In this scenario, revenue administration reform succeeds in moving the tax-to-GDP ratio to 10.5 percent by FY2035, consistent with the MLTRS target. This is achieved through a combination of successful electronic invoicing rollout that captures VAT from the informal sector, digital audit capacity that enforces compliance among large corporate taxpayers more effectively, expansion of the taxpayer base through TIN-NID integration, and the gradual formalization of economic activity through digital payment adoption.

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Banking sector resolution is undertaken decisively, with the Asset Management Company successfully taking over and managing the legacy NPL portfolios, governance changes at state-owned banks reducing new NPL generation, and the nine non-viable financial institutions restructured or wound down within the IMF-supported framework. The short-term fiscal cost is absorbed through the 2.4 percent of GDP fiscal space identified in the IMF's January 2026 country report, and the medium-term benefit is a banking system capable of efficiently channeling savings into productive investment.

LDC graduation management succeeds through a combination of export diversification into pharmaceuticals, ICT services, leather, footwear, and specialty food products; successful negotiation of Enhanced GSP Plus status with the European Union; and the adoption of EU ESG compliance frameworks as a competitive advantage rather than a barrier. The garment sector itself moves up the value chain, producing higher-value technical textiles, sustainable fashion products, and performance wear that command premium prices.

Climate finance is effectively mobilized, with Bangladesh accessing the full range of available international climate finance mechanisms including the Green Climate Fund, the Adaptation Fund, the Climate Investment Fund, and the new Article 6 carbon market mechanisms under the Paris Agreement. Domestic climate finance is strengthened through green bond issuance (Bangladesh Bank's green finance framework, which already offers 5 percent refinancing rates for sustainable products well below the market rate of 15 percent, provides an institutional foundation for this), and through the integration of climate resilience metrics into the MTBF.

The distributional outcome of the Structural Transformation Scenario is substantially improved. Universal primary healthcare at the community level is achieved by 2033. Learning poverty falls below 40 percent by 2031. Social protection coverage reaches 90 percent of the eligible poor by 2030. These outcomes, produced by the improved fiscal capacity and better-allocated spending that the structural transformation enables, represent the realisation of the Capability-Centered Fiscal Design vision articulated in Chapter One of this textbook.

65.5 The Fiscal Fracture Scenario: Compounding Crisis and Fiscal Collapse

The Fiscal Fracture Scenario describes a Bangladesh in which multiple structural risks materialize simultaneously and interact in ways that compound their fiscal damage.

In this scenario, the new government elected in February 2026, under pressure from constituencies that benefited from the pre-2024 fiscal order, begins reversing key reforms: tax exemptions that were reduced in FY2025-26 are reinstated; the NBR reform is effectively neutralized through staffing decisions that restore the institutional culture of the old system; ADP spending returns to the pattern of politically connected large projects with low implementation quality.

The banking sector NPL problem, without decisive resolution, continues to compound. Several mid-size private banks face depositor runs, triggering emergency liquidity support from Bangladesh Bank that creates inflationary pressure. The fiscal cost of banking sector support

exceeds 3 percent of GDP in a single year, forcing a dramatic budget revision and emergency international borrowing.

LDC graduation, without adequate preparation, leads to a sharp contraction in garment sector export revenues as EU duty-free access phases out faster than alternative market access is negotiated. The RMG sector, which contributes over 10 percent of GDP directly and much more through backward and forward linkages, faces employment contraction that reduces household incomes across a vast swath of the population.

A severe climate event, a Category 4 or 5 cyclone making direct landfall on the densely populated coast, compounding seasonal flooding in the agricultural heartland, triggers a fiscal emergency that depletes the contingency reserve, requires emergency borrowing, and forces cuts in development spending just when reconstruction needs are highest.

The combined effect of these shocks, in a context where fiscal institutions have been weakened by reform reversal, is a debt trajectory that moves quickly toward the high-risk category in the IMF's Debt Sustainability Assessment framework. International creditors impose emergency conditions. The IMF program, if not already concluded, is suspended. Foreign exchange reserves fall below the three-month import cover threshold. The taka depreciates sharply, inflating the domestic cost of external debt service and imported goods simultaneously.

The distributional outcome of the Fiscal Fracture Scenario is a sharp reversal of progress: poverty rates rise, health outcomes deteriorate as public health spending is cut in budget consolidation, learning poverty worsens as education quality investment is abandoned, and the inequality gap widens as the wealthy protect their assets while low-income households face the full force of the economic deterioration.

The Fiscal Fracture Scenario is not a prediction. It is a warning: a structured account of how the risks that currently exist in Bangladesh's fiscal system could interact if multiple fail simultaneously and political will to address them is absent.

65.6 The Probability-Weighted Expectation and Its Policy Implications

Standard decision theory holds that policy should be designed not for the most likely scenario but for the probability-weighted expected outcome across all scenarios, taking into account the severity of adverse outcomes and the value of options that preserve flexibility across scenarios.

A new concept introduced here is Fiscal Robustness Design: the principle that fiscal institutions and budget frameworks should be designed to perform adequately across all plausible scenarios, not just the central case, giving special priority to maintaining performance in scenarios that combine moderate probability with high adverse impact. The Fiscal Fracture Scenario, while not the most likely outcome, has a severity that warrants special attention in institutional design: the cost of preparing for it and partially preventing it is far smaller than the cost of allowing it to materialize.

Applied to Bangladesh's fiscal architecture, Fiscal Robustness Design implies: maintaining the independence of Bangladesh Bank to resist fiscal-monetary interface stress even when political pressures push toward monetary accommodation; preserving the institutional substance of the NBR reform even through political transitions that might otherwise reverse it; building foreign exchange reserve buffers above the minimum threshold to create fiscal space for shock absorption; maintaining the social registry and social protection infrastructure even when fiscal tightening requires expenditure cuts, since restoring it after dismantlement is far more expensive than maintaining it through fiscal difficulty; and continuing to build the climate adaptation infrastructure that reduces the fiscal cost of the next major climate event.

65.7 Exam Questions: Chapter Sixty-Five

Questions for BEcon Examination

- Define Fiscal Scenario Epistemology and explain why it is important to distinguish between scenarios and forecasts in fiscal planning. What cognitive pathologies arise when scenarios are treated as predictions? (12 marks)
- Identify the seven structural variables that this chapter identifies as primary determinants of Bangladesh's fiscal trajectory to 2036. Which three do you consider most important, and why? (15 marks)
- Describe the Incremental Consolidation Scenario. What is its probability, and what are its distributional consequences? (10 marks)

Questions for BSS (Economics) Examination

- Compare and contrast the Structural Transformation and Fiscal Fracture Scenarios. What specific institutional decisions made between 2026 and 2028 would most powerfully determine which of these two scenarios materializes? (15 marks)
- Define Fiscal Robustness Design. Apply this principle to identify five specific institutional features of Bangladesh's fiscal architecture that should be protected from political reversal during democratic transitions. (12 marks)

Questions for MSS (Economics) Examination

- Using the probability-weighted scenario analysis framework developed in this chapter, design a comprehensive fiscal risk management strategy for Bangladesh's new government elected in February 2026. The strategy should specify the fiscal policy, institutional, and political economy measures that the government should prioritize in its first two years to maximize the probability of the Structural Transformation Scenario and minimize the risk of the Fiscal Fracture Scenario materializing. (40 marks)

CHAPTER SIXTY-SIX: THE DIGITAL ECONOMY TRANSFORMATION AND ITS FISCAL ARCHITECTURE

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66.1 A New Definition: Digital Fiscal Infrastructure

Digital Fiscal Infrastructure is the integrated ensemble of technological systems, data architectures, legal frameworks, institutional capacities, and behavioral norms that enable a government to manage its revenue mobilization, expenditure execution, financial reporting, and accountability functions through digital means, and that simultaneously create the informational ecosystem within which citizens, businesses, and civil society can interact with the fiscal system with transparency and efficiency.

Digital Fiscal Infrastructure is distinct from digitization: the mere conversion of existing paper-based processes into electronic equivalents. True Digital Fiscal Infrastructure transforms the underlying logic of fiscal governance, not just its medium. It creates real-time visibility into fiscal flows that was previously impossible. It reduces the information asymmetries that have historically protected tax evasion and procurement fraud. It enables targeted, personalized service delivery that reduces both the cost and the exclusion error rate of social protection programs. And it creates audit trails that fundamentally change the accountability dynamics of public spending.

Bangladesh's digital economy is growing rapidly. Mobile financial services, pioneered by bKash and now involving numerous providers, have brought basic financial services to millions of previously unbanked Bangladeshis, creating a digital payment infrastructure that has enormous implications for the formalizability of economic transactions and for the government's ability to track taxable activity. The FY2025-26 budget explicitly allocated Tk 30,020 crore to digital infrastructure, representing 3.8 percent of total budget expenditure, including investments in AI literacy, 5G rollout, freelancing skills development, and the expansion of Hi-Tech Park infrastructure to 28 facilities. The Learning and Earning Development Program (LEDP), which has trained over 60,000 individuals in digital skills, represents the government's investment in building the human capital that the digital economy requires.

66.2 The Revenue Implications of Digital Economy Growth

The digital economy creates both opportunities and challenges for revenue mobilization. On the opportunity side, the formalization effect of digital transactions is potentially enormous. When a transaction occurs through a digital payment platform, it leaves a traceable record that the tax authority can in principle access. A street vendor who previously operated entirely in cash, generating no transaction records accessible to tax administration, and who now accepts bKash payments for every sale, has created an audit trail that the Revenue Management Division can use to assess their taxable turnover.

The World Bank's Bangladesh Development Update estimated that Bangladesh could collect three times more VAT than it currently does if policy and compliance gaps were fully closed. A significant portion of that compliance gap reflects transactions that are genuinely invisible to tax administration because they occur in cash in the informal economy. As digital payment penetration increases, this invisibility decreases, mechanically expanding the effective tax base without any change in the statutory tax rate.

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The challenge is that digital economy growth also creates new forms of tax avoidance that are more sophisticated than traditional cash concealment. Cross-border digital services provided by foreign companies to Bangladeshi consumers, including subscription services, cloud computing, digital advertising, and e-commerce platforms, currently generate large revenue flows that escape Bangladesh's tax net almost entirely. A Bangladeshi consumer paying a monthly subscription to a streaming platform registered in Luxembourg is generating taxable income for that platform that is legally owed some portion of tax in Bangladesh under both domestic law and international tax principles, but collecting it requires regulatory frameworks and international cooperation that Bangladesh is only beginning to develop.

The OECD's framework for taxing the digital economy, formally adopted through the Two-Pillar Solution agreed by the Inclusive Framework in 2021, creates a new international architecture for allocating taxing rights over multinational digital businesses. Pillar One allocates a portion of the profits of the largest multinational enterprises to the countries where their users and customers are located, regardless of where the company's physical presence or legal domicile is. Pillar Two establishes a global minimum corporate tax of 15 percent to prevent profit shifting to low-tax jurisdictions. Bangladesh, with approximately 50 million internet users and rapidly growing digital consumption, stands to gain measurable revenue from the effective implementation of Pillar One, but only if it develops the administrative capacity to identify, claim, and collect these allocations.

A new concept introduced here is Digital Revenue Sovereignty: a state's effective capacity to claim and collect the tax revenues generated by economic activity occurring within its digital space, including activity involving non-resident digital service providers and cross-border data-enabled transactions. Digital Revenue Sovereignty requires three components: domestic legal frameworks that assert taxing rights over digital transactions; international legal frameworks that allocate those taxing rights fairly across jurisdictions; and administrative capacity to actually identify taxable digital transactions, assert the claim, and collect the revenue.

Bangladesh's Digital Revenue Sovereignty is currently minimal. The legal and administrative framework for taxing cross-border digital services has not been comprehensively developed. Building it is a medium-term priority that belongs explicitly in the Revenue Management Division's capacity development roadmap.

66.3 The Nagorik Sheba Platform and Expenditure Digitalization

The Nagorik Sheba (Citizen Service) platform, announced in the FY2025-26 budget as a vehicle for delivering all government services through a single online address, represents the expenditure-side counterpart to revenue digitalization. Its successful implementation would transform the efficiency of public service delivery in ways that have profound fiscal implications.

Consider the social protection delivery chain. Currently, a poor household in rural Bangladesh that is eligible for the Old Age Allowance must navigate a process that involves application at the Union Parishad office, verification by local government officials who have incentives to favor connected applicants, processing through the district Social Welfare office, payment

through a local bank or mobile financial service point, and verification of receipt. Each step in this chain is a potential point of delay, error, or diversion. An end-to-end digitalized system, linking the Universal Social Registry to verified beneficiary mobile accounts and delivering payments directly to biometrically verified recipients, could reduce the administrative cost of the entire process by an estimated 60 to 70 percent while simultaneously reducing inclusion errors, reducing exclusion errors, and eliminating the most common forms of benefit diversion.

Similar efficiency gains are available in education transfer programs, healthcare voucher systems, agricultural subsidy delivery, and the procurement of goods and services by government agencies. The Universal Digital ID system announced in the FY2025-26 budget, building on the National Identity Card infrastructure, is the foundational architecture on which all of these efficiency gains depend.

A new doctrine articulated here is the Doctrine of Digital Fiscal Leakage Prevention: the principle that every element of Digital Fiscal Infrastructure should be designed, from its first specification, with explicit attention to the mechanisms through which it could be exploited for diversion or manipulation, and with countermeasures built into the design rather than added retroactively. This principle reflects the hard-learned experience from multiple developing countries where digital government initiatives reduced one form of corruption while creating new opportunities for more sophisticated forms.

66.4 Artificial Intelligence and the Future of Fiscal Governance

The application of artificial intelligence to fiscal governance is no longer a speculative future possibility. Several dimensions of fiscal management are already being transformed by AI applications, and Bangladesh's fiscal trajectory over the next decade will be significantly affected by how rapidly and intelligently it adopts these tools.

In revenue administration, AI-powered risk scoring can dramatically improve the efficiency of audit selection. Instead of relying on rule-based filters that sophisticated taxpayers can design around, AI models can identify anomalous patterns in tax returns that suggest underreporting, using information from multiple data sources simultaneously. Bangladesh's Revenue Management Division, as it develops its digital transformation capacity, should prioritize investment in AI-powered audit selection as a high-return application of its technology budget.

In expenditure management, AI can support procurement integrity by analyzing bid patterns across multiple tenders to identify cartel behavior, by flagging contract modifications that systematically increase prices above the initial bid, and by cross-referencing contractor identities with politically connected networks to identify conflict-of-interest risks. The e-Government Procurement (e-GP) system already in use in Bangladesh generates transaction data that could support these AI applications if the analytical capacity to use it is developed.

In social protection, AI can improve targeting accuracy by using satellite imagery to identify households in disaster-affected areas, by analyzing mobile phone usage patterns to identify vulnerability indicators, and by detecting duplicate registrations across multiple benefit programs that suggest system manipulation.

A new philosophical caution is warranted alongside these opportunities: the Principle of Algorithmic Fiscal Accountability. This principle holds that AI systems used in fiscal governance must be subject to the same accountability standards as human fiscal decision-makers: their decisions must be explainable, their error rates must be monitored and publicly reported, the populations they disadvantage must have avenues for appeal, and the data they use must be collected and managed with full respect for citizens' privacy rights and the constitutional protections that govern state access to personal information. AI in fiscal governance is a tool for improving human decision-making, not a replacement for the ethical and legal accountability that public officials owe citizens.

66.5 Exam Questions: Chapter Sixty-Six

Questions for BEcon Examination

- Define Digital Fiscal Infrastructure and explain why it is distinct from mere digitization of government processes. Give three examples of how Digital Fiscal Infrastructure creates new fiscal governance capabilities that paper-based systems cannot. (12 marks)
- What is Digital Revenue Sovereignty? How does it apply to the challenge of taxing cross-border digital services provided to Bangladeshi consumers by foreign digital platforms? What legal and administrative steps would Bangladesh need to take to improve its Digital Revenue Sovereignty? (15 marks)

Questions for BSS (Economics) Examination

- Describe three specific applications of AI in fiscal governance that could improve Bangladesh's fiscal performance. For each, explain the AI application, the fiscal benefit, and the accountability safeguard required by the Principle of Algorithmic Fiscal Accountability. (15 marks)
- Apply the Doctrine of Digital Fiscal Leakage Prevention to the design of the Nagorik Sheba platform. What specific features should be built into the platform's architecture to prevent the digital system from creating new forms of corruption while eliminating old ones? (12 marks)

Questions for MSS (Economics) Examination

- Construct a comprehensive analysis of the fiscal implications of Bangladesh's digital economy transformation over the period 2026-2036. Cover the revenue side (formalization effect, cross-border digital taxation, AI-enhanced compliance), the expenditure side (efficiency gains in service delivery, social protection targeting improvement), and the institutional implications (Digital Revenue Sovereignty, algorithmic accountability). Conclude with a quantified estimate of the net fiscal impact of full digital transformation relative to the Incremental Consolidation Scenario. (40 marks)

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CHAPTER SIXTY-SEVEN: CLIMATE FINANCE ARCHITECTURE, GREEN BUDGETING, AND THE FISCAL DIMENSIONS OF ENVIRONMENTAL TRANSITION

67.1 A New Definition: Climate Fiscal Stress

Climate Fiscal Stress is the condition in which the compound effects of climate change on a government's fiscal system, including both the direct fiscal costs of climate-induced disasters and the indirect fiscal costs of climate-driven economic disruption, exceed the government's capacity to absorb them through normal budget mechanisms without recourse to emergency borrowing, expenditure cuts in non-climate areas, or explicit international financial assistance.

Bangladesh is already experiencing Climate Fiscal Stress. Annual losses from tropical cyclones have reached approximately USD 1 billion, or 0.7 percent of GDP. The annual need for climate finance to address both adaptation and mitigation has been estimated at USD 12.5 billion, approximately 3 percent of GDP. The fiscal cost of agricultural loss from salinization of coastal soils, flooding of crop lands, and disruption of the monsoon cycle adds further invisible burden on a fiscal system already stretched across competing priorities. And the EU Carbon Border Adjustment Mechanism (CBAM), scheduled to be fully operational by 2026, threatens to impose additional export costs on Bangladesh's manufacturing sector if carbon intensity of production is not reduced.

The distinction between Climate Fiscal Stress and ordinary budget pressure is important. Ordinary budget pressure can be managed through the standard fiscal tools of expenditure prioritization, revenue enhancement, and deficit adjustment. Climate Fiscal Stress, because it is recurrent, compounding, and structurally driven, cannot be managed through these tools alone. It requires structural adaptation: investments in infrastructure that reduce the vulnerability of the economy to climate shocks, and transformation of the energy system that reduces future exposure to carbon pricing.

67.2 Bangladesh's Climate Change Trust Fund: Performance and Reform

Bangladesh established the Bangladesh Climate Change Trust Fund (BCCTF) in 2010, making it one of the first countries in the world to create a dedicated domestic climate finance mechanism funded from its own national budget. The fund, capitalized at Tk 3,000 crore through contributions from successive budgets, has financed hundreds of adaptation and mitigation projects across the country.

The BCCTF's record, while representing a genuine institutional achievement, illustrates several structural problems that have limited its effectiveness. As documented in recent research, more than 50 percent of BCCTF resources between FY2009-10 and FY2022-23 went to physical infrastructure: roads, embankments, and cyclone shelters. While physical infrastructure for climate adaptation is important, it represents the most visible and politically attractive form of climate investment rather than necessarily the most cost-effective. Only 0.89 percent of BCCTF resources financed integrated disaster management, including the slow-onset adaptation

measures against drought and salinization that affect the livelihoods of tens of millions of agricultural households.

This pattern reflects two structural problems. First, the capture of climate finance by the same political economy dynamics that affect regular public investment: visible, large-scale infrastructure projects generate political credit for elected officials in ways that difficult, sustained community-level adaptation programs do not. Second, the weak integration of climate finance with the Medium Term Budgetary Framework, which means that climate investments are not subject to the same strategic prioritization and performance assessment framework that governs other public spending.

A new concept introduced here is Climate Finance Allocation Rationality: the degree to which a country's climate finance is allocated according to evidence about the relative cost-effectiveness of different adaptation and mitigation interventions, rather than according to political visibility, institutional capacity biases, or donor preferences. Bangladesh's BCCTF exhibits low Climate Finance Allocation Rationality, with the empirical evidence suggesting that the most cost-effective adaptation investments, particularly in agricultural resilience, coastal livelihood diversification, and slow-onset salinity management, are systematically underfunded relative to large physical infrastructure.

67.3 The Green Climate Fund and Bangladesh's International Climate Finance Architecture

Bangladesh's access to international climate finance through mechanisms including the Green Climate Fund (GCF), Global Environment Facility (GEF), Adaptation Fund, and Climate Investment Fund represents a significant but underexploited fiscal resource. The GCF, the largest dedicated international climate finance mechanism, has approximately USD 17 billion in committed resources for developing countries. Bangladesh has accessed some of this financing but has not fully exploited its potential, partly because of limited institutional capacity to develop GCF-accredited project proposals and partly because of the bureaucratic complexity of GCF access modalities.

The January 2025 workshop organized by ERD, the Ministry of Environment, and UNDP to strengthen Bangladesh's capacity to access global climate finance represents an important capacity building effort. But capacity building alone is insufficient. Bangladesh also needs institutional developments at the national level: a designated national entity with full GCF accreditation and the technical capacity to develop, supervise, and report on GCF-financed projects; a national climate finance tracking system that maps all climate-relevant expenditure across all ministries against the Climate Finance Framework; and a sovereign Green Bond issuance program that taps private capital markets for climate investment.

Bangladesh Bank's existing green finance framework, which offers a 5 percent refinancing rate for sustainable products compared to a market rate of approximately 15 percent, represents a significant subsidy to green investment that is already in place. Scaling this framework, expanding the range of qualifying green investments, and building the verification infrastructure

needed to prevent "greenwashing" of ordinary loans as green finance, would expand private sector climate investment substantially.

A new doctrine articulated here is the Doctrine of Climate Finance Additionality: the principle that international climate finance provided to developing countries should be additional to existing development finance rather than a reclassification of conventional aid as climate-related, and that domestic budget allocations for climate action should also be additional to, not substituting for, normal development investment in climate-vulnerable sectors. Bangladesh's fiscal integrity in climate finance reporting requires strict application of this doctrine, both in international climate finance negotiations and in domestic budget accounting.

67.4 The Carbon Border Adjustment Mechanism and Bangladesh's Fiscal Response

The EU's Carbon Border Adjustment Mechanism (CBAM), which entered a transitional phase in October 2023 and will be fully operational for a range of sectors from 2026, represents a major new fiscal and trade risk for Bangladesh. While the initial CBAM sectors (steel, cement, aluminum, fertilizer, electricity, and hydrogen) do not include garments, the EU has signaled that the mechanism may be extended to additional sectors. More immediately, EU buyers are increasingly requiring Bangladeshi garment factories to report their carbon footprint and energy mix as part of ESG compliance requirements, with factories that cannot demonstrate low-carbon production facing price discounts or order losses.

The fiscal implications of CBAM and ESG compliance requirements operate through multiple channels. Direct compliance costs are borne by factories and are not immediately a fiscal matter, but they affect the competitiveness of the export sector and therefore the GDP growth and revenue base trajectory. However, the investment required to decarbonize Bangladesh's export manufacturing sector, through the adoption of solar power in factory operations, energy efficiency improvements, and electrification of production processes, is large and will require a mix of private investment and public support through tax incentives, green finance subsidies, and public investment in green energy infrastructure.

The government's June 2025 mandate requiring solar panel installation on the roofs of schools, hospitals, and public buildings represents a modest first step toward demonstrating the viability of solar energy at scale in Bangladesh. The FY2026 budget's reduction of customs duty on imported inverters is a small but directionally correct fiscal policy response to the green energy transition imperative.

A new principle introduced here is the Principle of Fiscal Green Alignment: the concept that a country's fiscal instruments, including tax incentives, public investment priorities, public procurement standards, and financial sector regulation, should be systematically aligned to support the transition toward a low-carbon economy, rather than sending mixed signals where some fiscal instruments subsidize fossil fuel use while others incentivize renewable energy.

Bangladesh's fiscal green alignment is currently weak. Fossil fuel subsidies, while reduced relative to their peak, continue to support oil-fired power generation and fossil fuel consumption at prices below their economic cost. Tax holidays for industrial production make no distinction

between carbon-intensive and carbon-efficient production methods. Procurement standards for public buildings do not yet systematically require energy efficiency. Creating Fiscal Green Alignment requires a systematic review of all fiscal instruments for their carbon impact, followed by a phased reform program that eliminates the most carbon-intensive fiscal subsidies while strengthening the green incentive framework.

67.5 Exam Questions: Chapter Sixty-Seven

Questions for BEcon Examination

- Define Climate Fiscal Stress. Using Bangladesh-specific evidence, demonstrate that Bangladesh is already experiencing this condition. What fiscal measures are most urgently needed to reduce Climate Fiscal Stress? (15 marks)
- Explain Climate Finance Allocation Rationality. Why is Bangladesh's BCCTF allocation pattern characterized by low Climate Finance Allocation Rationality, and what reforms would improve it? (12 marks)

Questions for BSS (Economics) Examination

- Critically assess Bangladesh's strategy for accessing international climate finance through the GCF, GEF, and Adaptation Fund. What institutional developments are needed to fully exploit Bangladesh's international climate finance potential? (15 marks)
- Explain the Principle of Fiscal Green Alignment. Conduct an audit of three specific fiscal instruments in Bangladesh's current budget that are misaligned with the green transition imperative, and propose modifications to each. (12 marks)

Questions for MSS (Economics) Examination

- Construct a comprehensive ten-year Climate Fiscal Strategy for Bangladesh covering: domestic climate investment needs and prioritization methodology; the reform of the BCCTF; the architecture of a sovereign Green Bond issuance program; the strategy for international climate finance access; the fiscal response to CBAM and EU ESG requirements; and the path toward Fiscal Green Alignment across the budget. Estimate the total fiscal cost of your strategy and identify the financing sources. (45 marks)

CHAPTER SIXTY-EIGHT: THE GEOPOLITICS OF AID, DEBT, AND BANGLADESH'S POSITION IN THE POST-LDC INTERNATIONAL FINANCIAL ARCHITECTURE

68.1 A New Framework: Geofiscal Positioning

Geofiscal Positioning is the strategic orientation of a country's fiscal relationships, including its aid dependencies, debt structure, institutional memberships, and budget conditionality arrangements, within the geopolitical architecture of the global economy. Every developing

country has a geofiscal position, whether or not it is consciously designed: it reflects the accumulated decisions about which international creditors to borrow from, which aid donors to accept and on what terms, which multilateral institutions to engage with and how, and how much domestic revenue mobilization the country chooses to pursue rather than substituting foreign resources.

Bangladesh's geofiscal position has been substantially determined by its historical development path. The country was, for decades, among the world's most aid-dependent economies, with official development assistance (ODA) financing a large share of the development budget. This aid dependency has declined dramatically as Bangladesh's economy has grown: ODA as a share of GNI has fallen from above 7 percent in the 1980s to below 1 percent in recent years. But the institutional relationships, the administrative cultures, and the policy habit of looking to international creditors for both resources and guidance have persisted longer than the aid dependency itself.

The post-LDC geofiscal landscape that Bangladesh is entering is fundamentally different from the LDC landscape it is leaving. LDC status confers specific advantages in the international financial architecture: eligibility for the OECD-DAC's concessional aid flows at the lowest interest rates, access to the IMF's Poverty Reduction and Growth Trust (PRGT) facilities at zero interest, eligibility for the UN's Technology Bank, access to enhanced trade preferences under the EU's Everything But Arms (EBA) scheme, and eligibility for country-specific waivers and flexibilities in WTO agreements. All of these advantages begin to phase out upon graduation.

68.2 The IMF Relationship: Beyond the Extended Credit Facility

Bangladesh's relationship with the International Monetary Fund has evolved from the structural adjustment programs of the 1980s and 1990s, which imposed standard conditionalities of fiscal consolidation, privatization, and trade liberalization, to the more nuanced Extended Credit Facility arrangement of 2023-2026, which included conditionalities but also substantial technical assistance and a policy dialogue framework that gave Bangladesh more genuine ownership of its reform program than earlier programs provided.

The January 2026 IMF Article IV consultation documented both the achievements and the risks of Bangladesh's fiscal position. GDP growth rebounded to 4.7 percent in FY2026 with medium-term acceleration projected to around 6 percent as reforms take effect. The IMF underscored the importance of comprehensive structural reforms to unlock Bangladesh's potential as it graduates from LDC status, with emphasis on governance, anti-corruption, central bank autonomy, and job creation.

Whether and how Bangladesh engages with the IMF after the ECF concludes will depend on its domestic fiscal performance. If Bangladesh achieves the revenue improvements and banking sector resolution targets that the ECF program has set, it will exit the program with improved fiscal institutions and no immediate need for further IMF support. If it falls short, a follow-on program may be necessary. The geofiscal implications of maintaining an IMF program are significant: it provides access to concessional resources and an international seal of approval that

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supports access to other financing, but it also involves conditionalities that constrain the new elected government's policy space.

A new concept relevant here is Conditionality Gradualism: the principle that the conditionality imposed by international financial institutions on developing countries should be calibrated to the country's demonstrated institutional capacity for reform implementation, with conditions becoming more demanding as capacity develops rather than front-loading difficult conditions before institutional capacity is built. The debate around Bangladesh's IMF program has at times reflected tension between the Fund's desire for rapid reform implementation and Bangladesh's institutional reality, where reform quality is more important than reform speed.

68.3 China, Japan, and Bilateral Creditor Dynamics

Bangladesh's development finance landscape includes substantial bilateral creditors alongside multilateral institutions. China, through its Exim Bank and other development finance institutions, has financed several major infrastructure projects, including the Padma Rail Link, the Karnaphuli Tunnel (Bangladesh's first underwater tunnel, connecting Chattogram with the Anwara peninsula), and various power generation facilities. Japan, through the Japan International Cooperation Agency (JICA), has been the primary financier of the Dhaka Metro Rail system, which has transformed urban mobility in Bangladesh's capital city.

The fiscal implications of the bilateral creditor structure deserve careful analysis. Chinese financing typically comes at somewhat higher interest rates than World Bank or ADB financing, but is notable for its speed of processing and its willingness to finance projects that multilateral lenders have declined, as in the Padma Bridge case. Japanese financing through JICA is highly concessional but comes with tied procurement requirements that favor Japanese contractors.

The debt sustainability implications of bilateral creditor exposure are partially captured in standard DSA frameworks, but the political economy of bilateral debt is more complex than debt arithmetic alone captures. When a country owes a large debt to a sovereign bilateral creditor, the relationship creates political dependencies that can influence the debtor's policy choices beyond the purely financial sphere. Bangladesh's geofiscal strategy should include a conscious approach to bilateral creditor diversification that maintains productive relationships with all major development finance partners while preserving the policy autonomy that effective fiscal governance requires.

A new doctrine introduced here is the Doctrine of Fiscal Sovereign Diversification: the principle that a developing country should deliberately maintain a diverse portfolio of international financial relationships, including multilateral institutions, bilateral creditors from multiple geopolitical blocs, international capital markets, and domestic resource mobilization, such that no single relationship becomes so dominant as to compromise the country's effective policy sovereignty. Bangladesh's current creditor diversification is reasonable, with the multilateral sector (World Bank, ADB, IMF) representing the largest component of external debt, followed by bilateral creditors from Japan, China, India, and others. Maintaining this diversification through the post-LDC transition, as the composition of available financing shifts away from concessional LDC-specific sources, is a strategic priority.

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68.4 The New Multilateralism and Bangladesh's Institutional Positioning

The international financial architecture is in the midst of its most significant reconfiguration since the Bretton Woods system was established in 1944. The rise of Chinese-led institutions including the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank, the proliferation of blended finance facilities combining public and private resources, the evolution of international climate finance mechanisms under the Paris Agreement, and the Two-Pillar digital economy tax agreement represent a fundamental diversification of the international financial governance architecture that creates both new opportunities and new navigational complexity for countries like Bangladesh.

Bangladesh is a founding member of the AIIB, which provides an additional source of infrastructure financing that has already been deployed in several Bangladesh projects. Positioning Bangladesh strategically within this diversified multilateral architecture requires developing the government's capacity to engage effectively with multiple institutional frameworks simultaneously, each with different procedures, conditionalities, and strategic priorities.

A new concept introduced here is Multilateral Fiscal Literacy: the institutional capacity of a developing country government to understand, navigate, and effectively exploit the full range of international financial institutions and instruments available to it, rather than defaulting to familiar relationships and missing the opportunities offered by newer institutions or specialized instruments. Bangladesh's Ministry of Finance and Economic Relations Division need systematic investment in Multilateral Fiscal Literacy, including technical staff trained in the procedures and requirements of the full range of available international financing mechanisms.

68.5 Exam Questions: Chapter Sixty-Eight

Questions for BEcon Examination

- Define Geofiscal Positioning. Describe Bangladesh's current geofiscal position and explain how LDC graduation is expected to change it. What should Bangladesh's post-LDC geofiscal strategy be? (15 marks)
- Explain the Doctrine of Fiscal Sovereign Diversification. How does Bangladesh's current bilateral creditor structure compare with the requirements of this doctrine? (12 marks)

Questions for BSS (Economics) Examination

- Critically evaluate Bangladesh's IMF relationship from the perspective of Conditionality Gradualism. Have the conditionalities of the 2023-2026 ECF been appropriately calibrated to Bangladesh's institutional capacity? What would a better-designed conditionality framework look like? (15 marks)

Questions for MSS (Economics) Examination

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- Construct a comprehensive Post-LDC International Financial Strategy for Bangladesh. The strategy should cover: managing the transition from LDC-specific concessional financing to near-commercial and commercial sources; positioning Bangladesh effectively in the diversified multilateral architecture including AIIB, World Bank, ADB, GCF, and IMF; managing bilateral creditor relationships with China, Japan, India, and others; and developing Bangladesh's access to international capital markets through sovereign bond issuance. Analyze the fiscal risks and mitigation strategies associated with each component. (45 marks)

CHAPTER SIXTY-NINE: THE FISCAL SOCIOLOGY OF COMPLIANCE CULTURE: NORMS, TRUST, AND THE TRANSFORMATION OF BANGLADESH'S TAX CITIZENSHIP

69.1 A New Concept: Tax Citizenship

Tax Citizenship is the quality of the civic relationship between individual taxpayers and the state as manifested through their voluntary compliance with tax obligations, understood not as coerced submission to state power but as an expression of civic identity, social solidarity, and mutual obligation within a political community. High levels of Tax Citizenship are associated with societies where citizens believe that their tax payments are used honestly and effectively for public purposes, that the tax system treats all citizens with equal respect and impartiality, that tax obligations are proportionate to ability to pay, and that the benefits of public services are genuinely accessible to all who contribute.

Tax Citizenship is distinct from tax compliance. Compliance is a behavioral outcome: either a taxpayer files an accurate return and pays the assessed amount, or they do not. Tax Citizenship is the motivational substrate from which compliance behavior emerges. A taxpayer who complies because they fear audit and prosecution is not a Tax Citizen; they are a coerced subject. A taxpayer who complies because they identify with the civic community that the tax system sustains, because they trust that their payment will be used well, and because they believe that non-compliance would be an unfair burden on the fellow-citizens who do comply: this taxpayer is a Tax Citizen.

The difference matters enormously for fiscal policy design. Compliance systems that rely entirely on enforcement, audit risk, and penalties can achieve moderate compliance rates at high administrative cost in societies where Tax Citizenship is underdeveloped. But the marginal returns to enforcement investment diminish rapidly: once a taxpayer faces a reasonable probability of being audited and penalties are applied consistently, further increases in enforcement intensity produce smaller compliance improvements at greater administrative and political cost. By contrast, in societies with high Tax Citizenship, compliance is largely self-sustaining, driven by internalized norms rather than enforcement threat.

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69.2 The Sociology of Bangladesh's Compliance Culture

Bangladesh's compliance culture is characterized by a set of widely shared beliefs and social norms that create significant structural barriers to Tax Citizenship. These beliefs, documented in behavioral economics research, business surveys, and civil society analyses, include the following widely held perceptions:

That tax authorities are corrupt and will use the audit process to extract informal payments rather than to assess taxes accurately. This perception is partially accurate: documented cases of harassment, arbitrary assessment, and demand for unofficial payments from NBR officials have been widely reported by business associations, journalists, and governance researchers. Even where the perception exceeds the actual prevalence of corruption, it creates a trust deficit that undermines voluntary compliance.

That the wealthy and politically connected do not pay their taxes. This perception is also partially accurate, as the extensive use of tax holidays, politically protected informal income, and the historic reluctance to enforce against large taxpayers with political connections demonstrates. When ordinary businesses observe that large connected enterprises receive favorable treatment, their willingness to comply voluntarily is correspondingly reduced.

That tax payments are wasted or diverted rather than used for public services. The documented patterns of Fiscal Hemorrhage, ADP underimplementation, and procurement corruption that this textbook has analyzed contribute to this perception. When citizens who pay their taxes observe poor public services, crumbling roads, chronically undersupplied Community Clinics, and evidence of procurement fraud, the social norm equation that makes Tax Citizenship rational breaks down.

Reversing these perceptions requires not only behavioral nudge campaigns and social norm messaging but the fundamental institutional changes that make the underlying perceptions inaccurate: tax administration that is genuinely impartial, enforcement that is genuinely non-discriminatory across income and political connection levels, and fiscal spending that visibly delivers the services citizens pay for.

69.3 The Role of Social Trust in Fiscal Architecture

The political philosophy of social trust, developed most comprehensively by Robert Putnam in his analyses of social capital and by Bo Rothstein and Jan Teorell in their work on quality of government, holds that the willingness of citizens to contribute to public goods through taxation is fundamentally linked to their trust in the institutions that manage those contributions. Trust is not simply an attitudinal variable; it is an institutional achievement that must be built through consistent, impartial, transparent, and effective governance over time.

The relationship between trust and tax compliance has been demonstrated in experimental and empirical research across many countries. Taxpayers who report higher levels of institutional trust also report higher willingness to comply voluntarily, and in countries where institutional trust improves over time, tax morale (the intrinsic motivation to pay taxes) also tends to improve.

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For Bangladesh, building the institutional trust that supports Tax Citizenship requires a set of behavioral commitments from the state that go beyond technical fiscal reforms. The state must demonstrate, through consistent action over time, that tax compliance is not for fools: that those who pay are not disadvantaged relative to those who evade, that the revenue collected is managed with integrity, and that the services funded by taxation genuinely improve the lives of the people who pay for them.

A new principle introduced here is the Principle of Fiscal Trust Reciprocity: the axiom that the state's demand for taxpayer compliance creates a corresponding obligation to demonstrate, through observable institutional behavior, that compliance will be rewarded with honest governance, effective service delivery, and equal treatment before the law. A state that demands Tax Citizenship without delivering Fiscal Trust Reciprocity is demanding civic virtue from citizens while practicing civic indifference itself: an unstable and ultimately self-defeating fiscal relationship.

69.4 Transforming Compliance Culture: A Long-Term Program

Transforming compliance culture in Bangladesh is a multi-decade project, not a short-term policy intervention. It requires simultaneous progress on multiple fronts: institutional reform that makes the tax administration genuinely fair and efficient, public education that reframes tax compliance as civic contribution rather than coercive extraction, transparency that allows citizens to see how their taxes are spent, and service delivery improvement that makes the connection between taxation and public welfare visible and credible.

The behavioral tax design interventions discussed in Chapter Four (social norm messaging, simplified filing, personalized information) are components of this transformation but cannot substitute for the institutional foundations. Telling taxpayers that "most people in your sector pay their taxes on time" is an effective compliance nudge only when it is true, and only when the institutional context confirms that compliance is met with fair treatment rather than audit harassment.

The most powerful long-term drivers of compliance culture transformation are the ones that make honest compliance more rational than evasion: electronic invoicing that creates audit trails, third-party data matching that reduces the information advantage of evaders, and consistent enforcement against large and politically connected tax avoiders that demonstrates that the system is genuinely rule-based. These institutional changes are the subject of the revenue reform agenda analyzed in Chapter Fifty-Seven. What the Fiscal Sociology chapter adds is the recognition that technical institutional change is necessary but insufficient without a parallel program of civic education, transparency improvement, and service delivery quality enhancement that changes the social meaning of tax compliance from submission to contribution.

69.5 Exam Questions: Chapter Sixty-Nine

Questions for BEcon Examination

- Define Tax Citizenship and explain how it differs from tax compliance. Why does the distinction matter for fiscal policy design? Use examples from Bangladesh's compliance culture to illustrate. (15 marks)
- Explain the Principle of Fiscal Trust Reciprocity. What specific institutional behaviors does this principle require from the Bangladeshi state if it expects to develop Tax Citizenship among its population? (12 marks)

Questions for BSS (Economics) Examination

- Drawing on the sociology of social trust and the behavioral economics of tax compliance, design a five-year program for improving Bangladesh's tax compliance culture. The program should specify the institutional reforms, behavioral interventions, transparency measures, and civic education initiatives required, and should set measurable milestones for compliance culture improvement. (20 marks)

Questions for MSS (Economics) Examination

- Using Rothstein and Teorell's quality of government framework and Putnam's social capital theory, construct a comprehensive analysis of why Bangladesh's compliance culture is characterized by low Tax Citizenship and high perceived institutional untrustworthiness, and design a multi-decade institutional transformation program that addresses the root causes. Include in your answer an assessment of how long it realistically takes for compliance culture to transform, with reference to comparative country experiences from Rwanda, Georgia, and Nordic countries. (40 marks)

CHAPTER SEVENTY: THE SOCIAL CONTRACT RECONSIDERED: FISCAL PHILOSOPHY, PUBLIC HEALTH, EDUCATION, AND THE NEW WELFARE ARCHITECTURE

70.1 A New Framework: The Generative Social Contract

The concept of the social contract, as developed through the philosophical lineage from Hobbes through Rawls, has typically been framed as a distributional agreement: citizens pay taxes, accept state authority, and observe the law; the state provides security, public goods, and basic welfare. This exchange model, while analytically useful, is incomplete in a crucial respect: it treats the social contract as static, a fixed agreement between pre-formed parties, rather than as a dynamic, generative relationship that constitutes both the state and its citizens over time.

This textbook proposes an alternative framework: the Generative Social Contract. A Generative Social Contract holds that the fiscal relationship between the state and its citizens is not merely a distributional agreement but a constitutive one: the quality of the fiscal relationship determines the kind of citizens and the kind of state that emerge from it. A state that taxes its citizens fairly, spends honestly, and delivers services effectively does not merely fulfill a contract; it generates the conditions for civic engagement, political participation, economic entrepreneurship, and

social solidarity that make democratic governance sustainable. A state that taxes predatorially, spends corruptly, and delivers services capriciously does not merely breach a contract; it generates the civic alienation, political cynicism, and economic informality that make governance progressively more difficult and more costly.

The Generative Social Contract framework has several important implications for fiscal policy design. First, it reframes the justification for investment in tax administration integrity: clean, impartial tax administration is not just economically efficient; it generates the civic norms that make democracy work. Second, it reframes the justification for investment in public service quality: good public schools and clinics are not just human capital investments; they generate the shared experiences of public provision that build civic solidarity across class and geographic lines. Third, it reframes the politics of redistribution: progressive fiscal policy is not just equitable; it is generative of the political stability and social cohesion that make long-run growth possible.

70.2 Public Health and the Social Contract: A New Assessment

The right to health has been affirmed in numerous international legal instruments, including the International Covenant on Economic, Social and Cultural Rights, which Bangladesh has ratified. The social contract dimension of public health, in the Generative Social Contract framework, goes beyond the provision of an enumerated right: it is a fundamental dimension of the state's role in constituting a society where all citizens can participate as full human beings.

A person whose chronic illness is untreated because they cannot afford care cannot participate fully in the economy, in politics, or in community life. A mother who loses a child to a preventable disease that adequate primary care would have averted does not merely suffer a personal tragedy; she suffers a breach of the most fundamental promise that a state makes to its citizens. A population where catastrophic health expenditure pushes 6.5 million people into poverty each year is not merely experiencing a health finance failure; it is experiencing a social contract failure that systematically reproduces poverty and inequality.

Seen through the Generative Social Contract lens, Bangladesh's health financing deficit is not simply a budget allocation problem. It is a fundamental failure of the state to generate the conditions for human flourishing that make a democratic polity coherent. Addressing it requires not just more money for health in the budget (though that is necessary) but a reconceptualization of public health as a core obligation of citizenship rather than a discretionary welfare provision.

The practical fiscal translation of this reconceptualization involves several specific commitments: a ten-year trajectory toward Universal Health Coverage with explicit annual milestones that are publicly monitored; an independent Health Finance Commission with the mandate and resources to design, advocate for, and monitor the implementation of the health financing transition; a statutory guarantee of essential health services that creates a legally enforceable right, creating accountability pressure for implementation; and an insurance-based financing mechanism that pools risk across income groups and provides a sustainable financing floor for universal services.

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70.3 Education and the Social Contract: From Enrollment to Empowerment

The social contract dimension of education, in the Generative Social Contract framework, is even more foundational than its human capital economic justification. Education is the primary mechanism through which a society transmits its accumulated knowledge, values, and civic norms to the next generation. A public education system that actually teaches children to read, think, question, and participate as informed citizens is not just an economic investment; it is the reproduction of the democratic polity itself.

Bangladesh's learning crisis, documented in Chapter Sixty-One, is therefore not merely an economic inefficiency but a civic emergency. A country where more than 60 percent of ten-year-olds cannot read with basic comprehension is a country whose public education system is failing to fulfill its deepest social contract obligation: preparing the next generation for informed citizenship.

The fiscal translation of this social contract obligation is a commitment to education quality that goes beyond enrollment metrics. It requires: teacher quality reform that creates a professional teaching cadre capable of inspiring genuine learning; curriculum reform that develops critical thinking and civic awareness alongside technical knowledge; assessment reform that measures learning outcomes rather than completion rates; and learning environment investment that gives all children, regardless of location or family income, access to the physical and material conditions in which learning can occur.

A new principle introduced here is the Principle of Civic Reproduction Priority: the axiom that public investment in education should be evaluated not only by its economic return in terms of human capital accumulation and labor market productivity but by its social return in terms of the quality of citizenship it produces, with full weight given to the civic education dimension that prepares young Bangladeshis to participate as informed, critical, engaged members of a democratic polity.

70.4 Social Protection and the Social Contract: Dignity as a Fiscal Value

Social protection, in the Generative Social Contract framework, is not charity. It is the fiscal expression of the social contract's most fundamental commitment: that membership in the political community entitles every person to a minimum floor of material security that preserves their dignity and enables their participation as free citizens rather than desperate dependents of private charity or predatory patrons.

The Relational Fiscal Justice framework introduced in Chapter Sixty-Two provides the philosophical foundation for designing social protection as a dignity-preserving right rather than a discretionary benefit. The practical fiscal translation involves several specific elements: transfer amounts that are calibrated to actual subsistence costs rather than to the fiscal residual after other spending priorities are met; application processes that treat applicants with respect and efficiency rather than subjecting them to bureaucratic ordeal as a mechanism for rationing limited benefits; appeals mechanisms that enable wrongly denied applicants to access their entitlement without requiring literacy, legal knowledge, or political connections; and

transparency in beneficiary selection that allows community oversight of inclusion and exclusion decisions.

Bangladesh's social protection system, as currently designed, falls short of these standards in several important respects documented in Chapter Sixty-Two. The transfer amounts of the Old Age Allowance and similar programs are too small to provide genuine subsistence security. The beneficiary selection process is vulnerable to local political capture. The fragmentation of over 100 programs creates navigational complexity that disadvantages the least educated and most vulnerable potential beneficiaries.

The Draft Budget FY2026-27 proposed in Chapter Sixty-Three moves in the right direction: inflating transfers to restore real value, expanding coverage toward the uncovered eligible poor, and funding the Universal Social Registry that would provide the informational infrastructure for genuine needs-based targeting. These are necessary first steps toward a social protection system that fulfills the social contract's dignitary promise.

70.5 Exam Questions: Chapter Seventy

Questions for BEcon Examination

- Define the Generative Social Contract and explain how it differs from the traditional distributional social contract. What are the three most important fiscal policy implications of adopting a Generative Social Contract framework? (15 marks)
- Explain the Principle of Civic Reproduction Priority. Apply it to evaluate Bangladesh's current education budget. Does the budget adequately reflect this principle? (12 marks)

Questions for BSS (Economics) Examination

- How does the Generative Social Contract framework reframe the political economy case for progressive fiscal policy in Bangladesh? Use specific examples from the healthcare, education, and social protection domains to illustrate how the generative dimension of fiscal policy differs from its purely distributional dimension. (15 marks)

Questions for MSS (Economics) Examination

- Construct a comprehensive philosophical and practical framework for redesigning Bangladesh's welfare architecture (health, education, and social protection) as a Generative Social Contract rather than a discretionary welfare provision. Your framework should specify the philosophical foundations, the legal architecture (rights, entitlements, enforcement mechanisms), the fiscal architecture (financing sources, allocation principles, accountability mechanisms), and the institutional architecture (delivery systems, quality monitoring, citizen engagement) needed to make the Generative Social Contract operational. Estimate the fiscal cost over ten years and identify the revenue strategy that would finance it. (50 marks)

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CHAPTER SEVENTY-ONE: A COMPREHENSIVE VISION OF BANGLADESH'S FISCAL STATE IN 2041: THE ARCHITECTURE OF FISCAL SOVEREIGNTY

71.1 A New Definition: Fiscal Maturity

Fiscal Maturity is the condition in which a state's fiscal system is capable of reliably converting economic activity into public revenue, deploying that revenue through capable and accountable institutions toward democratically determined public purposes, sustaining fiscal balance across economic cycles without external institutional rescue, and adjusting its fiscal framework adaptively to changing economic, social, and political conditions, all while maintaining the civic legitimacy that comes from citizens' genuine perception that the fiscal contract is honored on both sides.

Fiscal Maturity is the destination of the fiscal transformation journey this textbook has described. It is not a static endpoint but a dynamic equilibrium: a condition in which the institutional capacity of the fiscal system keeps pace with the evolving demands placed upon it by economic development, demographic change, technological transformation, and geopolitical shift. Countries that have achieved Fiscal Maturity, including the Nordic welfare states, the developmental states of East Asia, and a growing set of emerging economies that have successfully managed their own fiscal transitions, share certain characteristics: high and stable tax-to-GDP ratios, low corruption in public spending, strong and independent audit and accountability institutions, and social contracts that command genuine popular legitimacy.

Bangladesh Vision 2041, the government's long-term development vision, targets the achievement of high-income country status by the centenary of independence. Fiscal Maturity is not simply a corollary of economic growth; it must be built through deliberate institutional investment alongside and ahead of the growth process. Countries that arrive at high income without Fiscal Maturity, as some natural resource-rich states have done, typically face severe governance crises when the resource windfall ends. Bangladesh, which is building its growth on manufacturing, services, and human capital rather than natural resources, has a more sustainable growth model but also more demanding fiscal governance requirements.

71.2 The Fiscal Architecture of Bangladesh 2041: A Systematic Vision

The Bangladesh of 2041, if the Structural Transformation Scenario materializes and is sustained over fifteen years, would have a fiscal system with the following characteristics:

A tax-to-GDP ratio of approximately 15 to 17 percent, approaching the levels of middle-income comparator countries and reflecting the full digitalization of the economy, the comprehensive formalization of the business sector, the development of a robust property tax system at local government level, the effective taxation of capital gains and financial wealth, and the normalization of personal income tax filing as a universal civic practice. This ratio would represent more than a doubling of Bangladesh's current tax-to-GDP ratio of approximately 6.8 to 7.4 percent, but is consistent with the MLTRS trajectory extended beyond its FY2035 horizon.

A public health spending level of approximately 3.5 to 4 percent of GDP, largely domestically financed, supporting a Universal Health Coverage system that has eliminated catastrophic health expenditure as a structural poverty driver. Community Clinics, fully staffed and supplied, serve as the first point of contact for a primary care system that dramatically reduces avoidable illness, premature death, and the economic burden of untreated chronic disease. A social health insurance system, built incrementally from the pilots begun in the 2020s, pools risk across income groups and provides a financing floor that is independent of annual budget appropriation cycles.

A public education system that has resolved the learning crisis: primary school graduates who can read, write, and calculate at grade level; secondary schools that develop critical thinking and civic knowledge alongside technical competence; and a TVET system aligned with the evolving skill needs of a diversifying post-garment economy. The teacher profession has been reformed to attract talented graduates through competitive salaries, professional development, and career advancement opportunities. The madrasa system has been partially integrated into a quality assurance framework that ensures its graduates have the foundational skills for economic participation.

A social protection system that reaches 100 percent of the eligible poor through a Universal Social Registry that is continuously updated, serves as the backbone of all government welfare programs, and delivers benefits through digital payments to verified mobile accounts. Transfer amounts have been indexed to inflation and calibrated to actual subsistence costs. The system has been rationalized from over 100 fragmented programs to approximately 15 well-funded, well-targeted programs covering the major life-cycle risks: childhood, disability, old age, widowhood, and disaster-induced acute vulnerability.

A public investment program aligned with a genuine strategic prioritization process, in which ADP projects are selected through transparent economic cost-benefit analysis, monitored against performance milestones, and evaluated for post-completion impact. The ADP has been rationalized to a project portfolio of manageable size, fully implementable within the institutional capacity of executing agencies, with no token-allocation "ghost projects" and no new project approvals until the existing backlog has been substantially cleared.

A fiscal federalism architecture that has progressively devolved meaningful fiscal authority to city corporations, district councils, and upazila administrations, supported by own-revenue generation capacity, transparent formula-based intergovernmental transfers, and accountability mechanisms that enable local communities to hold their fiscal representatives accountable for service delivery quality.

71.3 The Institutional Prerequisites of Fiscal Maturity

Achieving the 2041 fiscal vision requires a set of institutional developments that must be built deliberately and maintained consistently through multiple political transitions. These institutional prerequisites are the foundation without which even technically well-designed fiscal policies will fail to achieve their intended results.

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The first prerequisite is a genuinely independent and technically capable revenue authority. The Revenue Policy Division and Revenue Management Division created by the 2025 ordinance will only fulfill their potential if they are staffed by technically qualified professionals who are hired, promoted, and managed on merit rather than political connection, protected from political interference in their operational decisions, equipped with the digital systems and data infrastructure needed for modern tax administration, and held accountable to transparent performance standards that are publicly reported. Building such an institution requires a fifteen-year investment in recruitment, training, remuneration reform, and organizational culture change.

The second prerequisite is an independent Parliamentary Budget Office with genuine analytical capacity to produce independent fiscal analysis, costing of government proposals, and alternative fiscal scenarios that give the parliament and the public a genuine source of fiscal information independent of the executive's presentations. Bangladesh's parliament currently lacks this capacity, leaving fiscal debate hostage to whatever information the Finance Division chooses to provide.

The third prerequisite is a strengthened Comptroller and Auditor General's office with the technical capacity to conduct not only financial compliance audits but performance audits: systematic assessments of whether government programs are achieving their stated objectives at reasonable cost. The performance audit function, conducted by a genuinely independent and resourced CAG office, is the primary mechanism through which the accountability loop between fiscal input and outcome is closed.

The fourth prerequisite is a comprehensive government financial statistics system that produces accurate, timely, and internationally comparable data on all dimensions of the government's fiscal position, including the Fiscal Shadow Balance Sheet of contingent liabilities, the distributional incidence of tax and spending, and the economic and social outcomes of major public investment programs. Without reliable data, neither the government nor its citizens can make informed judgments about fiscal performance.

The fifth prerequisite is a vibrant and technically sophisticated civil society fiscal monitoring capacity, including think tanks with the expertise to analyze budget proposals independently, journalism with the capacity to report on fiscal issues with accuracy and depth, and citizen organizations with the literacy to engage with fiscal debates on behalf of the populations most affected by fiscal decisions. This civil society capacity cannot be created by the government; it must emerge from the development of an educated, engaged citizenry and a political culture that values and protects independent public discourse.

71.4 The Path: Sequencing the Institutional Development

The institutions described in the preceding section cannot be created simultaneously, and the sequencing of their development matters as much as the institutions themselves. Building too many institutions at once disperses political capital and administrative energy in ways that produce nominal creation without substantive functioning. Building in the wrong sequence creates bottlenecks where later institutions cannot perform because earlier prerequisites have not been established.

A new concept introduced here is Fiscal Institutional Sequencing: the ordered development of fiscal institutions in a sequence that allows each new institution to build on the foundations established by its predecessors, creating a cumulative institutional architecture rather than a set of disconnected reforms.

The recommended sequencing for Bangladesh's fiscal institutional development, grounded in the analysis of this textbook and in comparative evidence from successful fiscal transitions, is as follows:

Phase One (2026-2030) focuses on revenue administration transformation: completing the NBR split with genuine institutional substance; implementing electronic invoicing for VAT comprehensively; developing the TIN-NID integration; establishing AI-powered audit selection; and achieving measurable improvement in the tax-to-GDP ratio toward 9 to 10 percent. This phase also includes completing the banking sector NPL resolution within the IMF-supported framework and establishing the Universal Social Registry.

Phase Two (2028-2033) focuses on expenditure governance transformation: establishing the Parliamentary Budget Office; strengthening the CAG performance audit capacity; implementing the evidence-based ADP rationalization process; developing the local government fiscal capacity through progressive devolution; and achieving measurable improvement in ADP implementation rates and project quality outcomes.

Phase Three (2031-2041) focuses on social contract fulfillment: achieving Universal Health Coverage through the social health insurance architecture; resolving the learning crisis through sustained education quality reform; completing the social protection system rationalization; and achieving the distributional fiscal equity that the Fiscal Distributive Mapping doctrine requires. This phase is only achievable on the fiscal foundation that Phases One and Two have built.

71.5 Exam Questions: Chapter Seventy-One

Questions for BEcon Examination

- Define Fiscal Maturity. What are the five key characteristics that distinguish a fiscally mature state from one that has not yet achieved this condition? Does Bangladesh's current fiscal system exhibit any of these characteristics, and which are most absent? (15 marks)
- Describe the five institutional prerequisites of Fiscal Maturity identified in this chapter. Which two do you consider most urgently needed in Bangladesh's current context, and why? (15 marks)

Questions for BSS (Economics) Examination

- Using the Fiscal Institutional Sequencing framework, critically evaluate whether the reforms currently underway in Bangladesh's fiscal system are appropriately sequenced. Identify two specific sequencing errors and explain their likely consequences. (15 marks)

- Construct a vision of Bangladesh's social protection system in 2041. What would need to change from the current system to achieve this vision, and what is the fiscal cost of the transition? (12 marks)

Questions for MSS (Economics) Examination

- Critically evaluate the vision of Bangladesh's fiscal state in 2041 presented in this chapter. What are the most important assumptions this vision makes? Which assumptions are most uncertain, and how would changes in those assumptions affect the vision? Construct an alternative 2041 vision based on a different set of assumptions about the structural variables identified in Chapter Sixty-Five, and compare the two visions in terms of their distributional outcomes, fiscal sustainability, and democratic legitimacy. (50 marks)

CHAPTER SEVENTY-TWO: THE INTELLECTUAL CONTRIBUTION OF THIS TEXTBOOK: A SYNTHESIS OF NEW CONCEPTS, PRINCIPLES, DOCTRINES, AND FRAMEWORKS

72.1 The Purpose of Intellectual Stock-Taking

Every serious work of scholarship benefits from explicit reflection on its intellectual contribution: what it has added to the existing body of knowledge, what new conceptual tools it has developed, and how those tools relate to the existing literature. This chapter undertakes that reflection for the present textbook, organizing the intellectual contributions by category and evaluating their significance.

This is not an exercise in self-congratulation. It is a necessary act of intellectual accountability. A textbook that claims to offer new definitions, principles, doctrines, and frameworks without explicitly identifying what those innovations are and how they differ from existing formulations fails in its educational duty to the reader. This chapter names, organizes, and briefly evaluates the major intellectual contributions of the nine parts of this text.

72.2 New Definitions

The textbook has proposed over forty new definitions of key concepts in fiscal governance, public economics, and political economy. These definitions are "new" in the specific sense that they are grounded in the latest evidence from Bangladesh's fiscal experience and from global fiscal research, and they are formulated to capture dimensions of meaning that existing standard definitions underweigh or omit.

The definition of the National Budget as a "dynamic, iterative, and politically negotiated projection of the state's capacity to mobilize resources and deploy them toward socially determined ends, constrained by macroeconomic realities, institutional capabilities, international obligations, and the competing claims of organized political interests" (Chapter One) represents a

genuine advance over static definitions that present the budget as simply a plan or accounting statement.

The definition of Revenue Administration as "the physiological system through which a state converts the economic activity of its population and enterprises into the financial resources required to fund its obligations and pursue its developmental ambitions" (Chapter Fifty-Seven) captures the relational and systemic character of tax administration that purely mechanical definitions omit.

The definition of Health Fiscal Sovereignty as "the capacity of a state to deploy sufficient, effectively managed public resources to ensure that no citizen is denied access to essential health services or faces financial catastrophe as a consequence of health expenditure" (Chapter Sixty) grounds fiscal analysis in the human welfare outcomes that justify the entire fiscal enterprise.

The definition of Tax Citizenship as "the quality of the civic relationship between individual taxpayers and the state as manifested through their voluntary compliance with tax obligations, understood not as coerced submission to state power but as an expression of civic identity, social solidarity, and mutual obligation" (Chapter Sixty-Nine) provides the normative foundation for a fundamentally different approach to tax compliance policy than the standard enforcement-only framework.

The definition of Fiscal Maturity as "the condition in which a state's fiscal system is capable of reliably converting economic activity into public revenue, deploying that revenue through capable and accountable institutions toward democratically determined public purposes, sustaining fiscal balance across economic cycles without external institutional rescue, and adjusting its fiscal framework adaptively to changing conditions, while maintaining the civic legitimacy that comes from citizens' genuine perception that the fiscal contract is honored on both sides" (Chapter Seventy-One) provides a comprehensive standard for evaluating fiscal governance quality that integrates technical, institutional, and normative dimensions.

72.3 New Principles

The textbook has articulated fifteen new principles of fiscal governance. These principles function as normative guides for fiscal decision-making, translating the philosophical frameworks developed in the text into specific operational commitments.

The Principle of Fiscal Authenticity (Chapter One) holds that a budget is authentic to the extent that its stated allocations, targets, and priorities bear a verifiable and honest relationship to the actual fiscal behavior of the state throughout the year.

The Principle of Adaptive Fiscal Constraint (Chapter Three) holds that fiscal discipline is best achieved through institutionally embedded practices that create accountability pressure for responsibility without preventing necessary counter-cyclical action.

The Principle of Preventive Fiscal Priority (Chapter Sixty) holds that in public health budgeting, resources should be systematically weighted toward preventive and primary care interventions with high population-level impact at low unit cost.

The Principle of Structural Gender Fiscal Equity (Chapter Five) holds that gender-responsive budgeting is incomplete if it focuses only on the quantum of explicitly women-targeted spending and fails to analyze how the entire structure of public spending reinforces or challenges the gendered distribution of economic opportunity and burden.

The Principle of Fiscal Moral Hazard Containment (Chapter Fifty-Eight) holds that the long-term cost of policies creating systematic incentives for non-compliance will, in any multi-period analysis, exceed the short-term revenue gains those policies produce.

The Principle of Budget-Institution Alignment (Chapter Sixty-Four) holds that a budget is only as strong as the institutional infrastructure available to implement it, and that a budget that outstrips its implementing institutions in ambition is not bold but wasteful.

The Principle of Civic Reproduction Priority (Chapter Seventy) holds that public investment in education should be evaluated for its social return in terms of the quality of citizenship it produces, not only its economic return in labor productivity.

The Principle of Fiscal Trust Reciprocity (Chapter Sixty-Nine) holds that the state's demand for taxpayer compliance creates a corresponding obligation to demonstrate, through observable institutional behavior, that compliance will be rewarded with honest governance and effective service delivery.

The Principle of Algorithmic Fiscal Accountability (Chapter Sixty-Six) holds that AI systems used in fiscal governance must be subject to the same accountability standards as human fiscal decision-makers.

The Principle of Participatory Reform Architecture (Chapter Fifty-Seven) holds that the sustainability of institutional reforms in revenue administration depends critically on the degree to which affected professionals are genuinely incorporated into the reform design process.

72.4 New Doctrines

The textbook has developed twelve new doctrines: structured normative commitments that go beyond individual principles to articulate a comprehensive approach to a domain of fiscal governance.

The Doctrine of Layered Fiscal Sovereignty (Chapter One) holds that a state's effective fiscal autonomy operates across five overlapping layers: constitutional, institutional-administrative, macroeconomic-financial, international political-economic, and epistemic.

The Doctrine of Temporal Fiscal Equity (Chapter Four) holds that fiscal policy should distribute benefits and burdens fairly not only across current population groups but across generations.

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The Doctrine of Transparent Subsidy Accounting (Chapter Fifty-Nine) holds that all public subsidies, including those delivered through SOE pricing below cost, must be quantified, made visible in fiscal reporting, and evaluated for distributional impact.

The Doctrine of Fiscal Gradualism with Structural Anchors (Chapter Fifty-Seven) holds that ambitious revenue targets in developing economies are most credibly achieved through modest, sustained incremental improvements anchored to structural institutional changes.

The Doctrine of Climate Finance Additionality (Chapter Sixty-Seven) holds that international climate finance should be additional to, not substituting for, conventional development finance.

The Doctrine of Fiscal Distributive Mapping (Chapter Sixty-Two) holds that every budget should include a comprehensive analysis of the distributional incidence of both revenue collection and public spending.

The Doctrine of Digital Fiscal Leakage Prevention (Chapter Sixty-Six) holds that every element of Digital Fiscal Infrastructure should be designed from inception with explicit attention to exploitation mechanisms and built-in countermeasures.

The Doctrine of Fiscal Sovereign Diversification (Chapter Sixty-Eight) holds that a developing country should deliberately maintain a diverse portfolio of international financial relationships to preserve effective policy sovereignty.

72.5 New Frameworks and Philosophies

The textbook has proposed seven new analytical frameworks and three new philosophical frameworks that provide systematic approaches to understanding fiscal phenomena.

The Social Infrastructure Continuum (Chapter Four) frames public expenditure goods along a spectrum from pure public goods through mixed goods with externality justifications to quasi-private goods provided on equity grounds.

The Health Fiscal Ecology (Chapter Sixty) holds that health outcomes are produced by the interaction of health spending with the broader fiscal ecology of social determinants.

The Human Capital Fiscal Productivity concept (Chapter Sixty-One) provides a framework for evaluating education spending by its actual learning outcome returns rather than its input metrics.

The Fiscal Scenario Epistemology framework (Chapter Sixty-Five) provides a rigorous methodology for understanding what fiscal scenarios can and cannot represent.

The Geofiscal Positioning framework (Chapter Sixty-Eight) provides a systematic approach to understanding and designing a country's strategic orientation in the international financial architecture.

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The Fiscal Institutional Sequencing framework (Chapter Seventy-One) provides a structured approach to ordering institutional development reforms to maximize their cumulative effectiveness.

The Generative Social Contract philosophy (Chapter Seventy) reframes the fiscal relationship between state and citizen as constitutive rather than merely distributional, with profound implications for how fiscal policy is justified and evaluated.

The Capability-Centered Fiscal Design philosophy (Chapter One) provides a comprehensive normative framework for evaluating fiscal allocation decisions by their impact on the real freedoms and capabilities of the least-advantaged members of society.

The Philosophy of Achievable Transformation (Chapter Sixty-Four) articulates the principle that transformative fiscal ambition must be calibrated to institutional capacity, choosing credibility over theater.

72.6 The Textbook's Approach to Bangladesh-Specific Theory Building

One of the most distinctive features of this textbook, and one that deserves explicit acknowledgment in this synthesis chapter, is its commitment to building theory from the Bangladesh-specific evidence rather than simply applying externally generated theory to the Bangladesh context. The standard academic approach to development economics, inherited from the structure of the international research enterprise, generates theory in the research centers of wealthy countries and applies it to developing country contexts, with adjustments for local specifics but without fundamental reconceptualization.

This textbook has attempted a different epistemological posture. The concepts of Fiscal Sedimentation, the Theatrical Fiscal Parliament, the Developmental-Clientelist Hybrid, Institutional Capture Sclerosis, the Procurement Equilibrium Trap, the Fiscal Hemorrhage, the Reform Institutionalization Gap, and the Health Financing Transition Pathway all emerge from careful observation of Bangladesh's specific institutional dynamics, not from the application of pre-formed theoretical frameworks. They may have analogues in other countries' experiences, and cross-national evidence has been cited throughout to illuminate the Bangladesh case, but their formulation is grounded in the particular textures of Bangladesh's fiscal history, institutional structure, and political economy.

This approach carries both a strength and a limitation. Its strength is that it produces concepts that genuinely capture the dynamics of the Bangladeshi fiscal system in ways that externally generated frameworks often miss. Its limitation is that the generalizability of these concepts beyond Bangladesh must be tested through further comparative research. Several of the concepts introduced in this textbook, particularly those relating to reform resistance in revenue administration, the political economy of ADP project selection, and the dynamics of fiscal-monetary interface stress in small open developing economies, are likely to resonate with analysts working on other South Asian, Southeast Asian, and Sub-Saharan African fiscal systems. Whether they do is a question for the scholarly conversation that this textbook seeks to provoke.

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72.7 Exam Questions: Chapter Seventy-Two

Questions for BEcon Examination

- From the new definitions proposed in this textbook, select three that you consider the most intellectually significant. For each, explain the definition, compare it with the standard definition it replaces, and illustrate its practical implication for fiscal policy in Bangladesh. (20 marks)
- What does the commitment to Bangladesh-specific theory building mean as an epistemological approach, and why might it produce better conceptual tools for analyzing Bangladesh's fiscal system than applying externally generated theory? (12 marks)

Questions for BSS (Economics) Examination

- Compare and contrast the doctrines of Temporal Fiscal Equity, Fiscal Gradualism with Structural Anchors, and Fiscal Sovereign Diversification. What common philosophical commitments do they share? How might they come into tension with each other in specific policy situations? (15 marks)
- The Generative Social Contract and Capability-Centered Fiscal Design are both philosophical frameworks proposed in this textbook for evaluating fiscal policy. How do they relate to each other, and what different analytical insights does each provide when applied to Bangladesh's social protection system? (12 marks)

Questions for MSS (Economics) Examination

- Write a critical review of this textbook's intellectual contributions from the perspective of a leading international public economics scholar. Identify the three most significant intellectual advances the textbook makes, evaluate their theoretical rigor and empirical grounding, and identify two areas where the conceptual development is incomplete or requires further research and elaboration. Conclude with an assessment of the textbook's contribution to the broader field of development public finance. (50 marks)

PART NINE: CONCLUDING SYNTHESIS AND FAREWELL

The nine parts of this textbook have traveled from the foundational philosophy and history of Bangladesh's fiscal system (Part One) through the technical architecture of budget preparation, modeling, and assessment (Part Two), the sectoral economics of public expenditure (Part Three), the political economy of revenue, accountability, and governance (Part Four), the institutional transformation agenda (Part Five), the advanced theory of fiscal science and global integration (Part Six), the international crisis assessment framework (Part Seven), the deep institutional investigation and accountability architecture (Part Eight), and finally to the future: the scenario analysis, the digital economy transformation, the climate fiscal challenge, the geofiscal repositioning, the compliance culture transformation, the reconsidered social contract, the 2041 vision, and the intellectual synthesis of what this entire intellectual journey has produced.

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What has this journey shown?

It has shown that Bangladesh's fiscal system is neither a simple success story nor a straightforward failure, but a complex, historically conditioned, institutionally contested, and politically embedded set of arrangements that has achieved remarkable things, that faces profound structural challenges, and that holds within its contradictions both the seeds of transformation and the risks of stagnation.

It has shown that understanding a fiscal system requires moving across multiple registers simultaneously: the constitutional and legal, the economic and technical, the historical and institutional, the political and sociological, the behavioral and psychological, the philosophical and normative. Fiscal governance is irreducibly complex, and any analysis that flattens this complexity to a single dimension, whether the purely technical, the purely political, or the purely philosophical, produces an understanding too thin to be useful.

It has shown that Bangladesh has, across its fifty-five years of independence, built genuine and remarkable fiscal achievements: institutions that function, programs that reach the poor, systems that collect revenue and deploy it, however imperfectly, in the public interest. These achievements deserve acknowledgment and study as well as the structural challenges that overshadow them.

It has shown that the path from Bangladesh's current fiscal position to the Fiscal Maturity vision of 2041 is neither impossibly long nor trivially short. It is a fifteen-year program of deliberate institutional investment, sustained political will, consistent civic engagement, and patient cultural change. Countries at similar starting points have traveled this path. Bangladesh can travel it too, if the analytical understanding, the institutional design, and the political commitment can be brought together in sufficient measure and sustained across the inevitable disruptions of democratic politics, economic shocks, and geopolitical change.

The final philosophical note this textbook wishes to sound is this: fiscal governance is, at its deepest level, an act of collective self-determination. When a society decides how to tax itself and how to spend the proceeds, it is deciding what it values, what obligations it acknowledges toward its most vulnerable members, what investments it makes in the capacity of future generations, and what kind of state it is building for its children. These are not technical decisions. They are civilizational choices, expressed in taka and crore but carrying the full weight of what a society believes about justice, solidarity, and the meaning of living together.

Bangladesh at seventy-five: a country of 170 million people, immense resilience, extraordinary economic achievement, democratic aspiration, and unresolved structural challenges. The fiscal architecture this country builds in the next fifteen years will determine much of what the Bangladesh of 2041 looks like. The students, practitioners, policymakers, and citizens who read this textbook are participants in that architecture, whether or not they hold positions of formal authority. The quality of their understanding, the rigor of their analysis, and the integrity of their engagement with the fiscal choices that confront their country will shape, in ways large and small, the fiscal future that Bangladesh becomes.

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This textbook has been written for them, in the belief that understanding is the first precondition of transformation, and that Bangladesh, which has surprised the world so many times before, has every reason and every capacity to surprise it again.

Comprehensive Final Examination Questions for Part Nine

Questions for BEcon Final Examination

1. The three fiscal scenarios constructed in Chapter Sixty-Five, the Incremental Consolidation Scenario, the Structural Transformation Scenario, and the Fiscal Fracture Scenario, differ primarily in the values of the seven structural variables identified as key determinants. Construct a table that specifies the value of each structural variable in each scenario. Then identify which two variables you consider most important in determining which scenario materializes, and explain your reasoning. (25 marks)
2. This textbook has developed the concept of the Generative Social Contract as a framework for understanding the deeper purpose of fiscal policy. Apply this framework to evaluate Bangladesh's FY2025-26 budget. Does the FY2025-26 budget generate or erode the civic conditions that the Generative Social Contract requires? Justify your answer with reference to specific budget allocations and their Generative Social Contract implications. (20 marks)
3. Write a 1,000-word essay on the following question: "Is Bangladesh's fiscal future more likely to be shaped by technical policy reforms or by political economy transformation?" Draw on concepts and evidence from throughout this textbook to develop your argument. (20 marks)

Questions for BSS (Economics) Comprehensive Final Examination

1. This textbook has introduced the concept of Fiscal Institutional Sequencing and proposed a three-phase sequence for Bangladesh's institutional development toward Fiscal Maturity. Critically evaluate this sequence. Is the sequencing correct? Are the timelines realistic? Are there important institutional developments that the sequence omits? Propose modifications to the sequence based on your analysis. (30 marks)
2. The textbook has argued that Digital Revenue Sovereignty, Climate Fiscal Stress management, and Post-LDC Geofiscal Repositioning are three of the most consequential challenges for Bangladesh's fiscal future. Analyze the interaction among these three challenges. How does poor performance on any one of them make the others harder to manage? Design an integrated strategy that addresses all three simultaneously. (25 marks)
3. Using the Fiscal Scenario Epistemology framework developed in Chapter Sixty-Five, critically evaluate the IMF's January 2026 Article IV projections for Bangladesh's fiscal trajectory. What assumptions underlie the IMF's projections? What alternative assumptions would produce substantially different projections? Which set of assumptions do you consider more realistic, and why? (25 marks)

Questions for MSS (Economics) Comprehensive Final Examination

1. Write a comprehensive critical assessment of the intellectual architecture of this entire textbook. Identify its three most significant analytical contributions to the theory of development public finance. Identify its two most important limitations or gaps. Propose a research agenda that would address those limitations and extend the textbook's intellectual project. (50 marks)
2. Construct a complete fiscal vision for Bangladesh in 2041, including: the macroeconomic framework, the tax system architecture, the public expenditure priorities and their distributional design, the debt sustainability position, the institutional architecture of fiscal governance, and the social contract that the fiscal system expresses. Your vision should be internally consistent, fiscally sustainable, institutionally feasible, and distributionally just. Defend each major design choice against the strongest available counter-argument. (50 marks)
3. The final sentence of this textbook's Concluding Synthesis states: "The quality of their understanding, the rigor of their analysis, and the integrity of their engagement with the fiscal choices that confront their country will shape, in ways large and small, the fiscal future that Bangladesh becomes." Write a 2,000-word reflective essay on what this statement means for you personally as a student of economics and public finance, what it implies for your responsibilities as a future professional in Bangladesh, and how the intellectual tools this textbook has provided will inform your professional practice. (40 marks)

Selected Bibliography and Further Reading

The following works constitute the primary intellectual sources for the theoretical frameworks, empirical analyses, and comparative evidence developed in this textbook. Students are strongly encouraged to engage directly with these sources.

On Fiscal Theory and Public Finance: Paul Samuelson's foundational 1954 paper on public goods in the Review of Economics and Statistics; James Mirrlees's Nobel Lecture on optimal taxation; Amartya Sen's Development as Freedom (1999) for the capabilities framework; James Buchanan and Gordon Tullock's The Calculus of Consent (1962) for public choice foundations; Abba Lerner's Functional Finance articles; Stephanie Kelton's The Deficit Myth (2020) for the MMT framework; and the comprehensive survey by Jean Tirole in Economics for the Common Good (2017).

On Bangladesh-Specific Fiscal Analysis: The Centre for Policy Dialogue's annual budget analysis series; the IMF Country Reports on Bangladesh (2023, 2025, 2026); the World Bank's Bangladesh Development Updates; the UNDESA LDC Monitoring Reports on Bangladesh; the National Board of Revenue's Medium and Long Term Revenue Strategy (2024); the Finance Division's budget speeches and MTBF documents for FY2025-26; the General Economics Division's Economic Update and Outlook (January 2026); and the extensive research literature from BRAC Institute of Governance and Development, the South Asian Network on Economic Modeling (SANEM), and the Bangladesh Institute of Development Studies.

On Comparative Fiscal Experience: Charles Tilly's Coercion, Capital and European States for the historical sociology of fiscal state formation; Mick Moore's work on taxation and state-building in developing countries; Timothy Besley and Torsten Persson's Pillars of Prosperity (2011) for the political economy of fiscal capacity; the World Bank's 2017 report on the revenue mobilization challenge in low-income countries; and the IMF's Fiscal Monitor series for the global fiscal landscape.

On Governance and Institutional Economics: Daron Acemoglu and James Robinson's Why Nations Fail (2012) for the foundational framework of inclusive versus extractive institutions; Mushtaq Khan's extensive work on the political economy of governance in developing countries; Elinor Ostrom's Governing the Commons (1990) for the institutional design of collective resource management; and Bo Rothstein and Jan Teorell's work on the quality of government and its relationship to social trust.

On Climate Finance: The UNDP Bangladesh reports on climate finance access; the Boston University Global Development Policy Center's work on Bangladesh's climate debt nexus; the Green Climate Fund's operational policies and results frameworks; and the IPCC's Sixth Assessment Report for the scientific foundation of climate vulnerability assessment.

On Digital Government and Tax Administration: The OECD's Tax Administration 2023 comparative analysis; the IMF's technical assistance reports on revenue administration modernization in South Asia; the World Bank's Digital Economy Assessment for Bangladesh; and the research literature on behavioral tax design by Emmanuel Saez, Cass Sunstein, and Richard Thaler.

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Glossary of New Terms and Concepts

(In alphabetical order; page numbers refer to first introduction in the PDF)

Achievable Transformation (Philosophy of) — 133, 216-217, 222, 224-226, 431-433, 435-436, 470
: The doctrine that budget design should be simultaneously ambitious in developmental vision and grounded in institutional reality, proposing changes that are large enough to matter but calibrated to what the system can actually collect, spend effectively, and absorb without instability.

ADP Quality Compression Principle — 388, 393, 397
: The principle that reducing the number of ADP projects while increasing per-project allocation and supervision intensity generates better fiscal returns than expanding project numbers.

Aspirational Budgeting — 88-89, 91
: The practice of constructing revenue targets, development program sizes, and growth

projections at levels that represent the best conceivable outcomes rather than the most probable ones.

Asymmetric Social Contract Failure — 250, 285
: The condition in which the state extracts revenue from formal sector workers and businesses with reasonable efficiency but returns it in public services of such poor quality that many taxpayers opt out of public services while continuing to pay taxes.

Bank Reserve Fiscal Interface — 231, 283
: The set of mechanisms through which the central bank's balance sheet position, reserve adequacy, and lending behavior affect the fiscal capacity of the central government, and conversely through which fiscal decisions affect the central bank's monetary management.

Banking Sector Fiscal Absorption (BSFA) — 167, 170
: The total fiscal cost absorbed by the government as a consequence of the banking sector's financial position, including explicit budget transfers, implicit subsidies, guarantee costs, and opportunity costs.

Behavioral Calibration Problem — 212, 216, 228
: The difficulty faced by fiscal modelers in estimating behavioral parameters from data on the actual economic environment, rather than from theoretical assumptions or values estimated in different countries or periods.

Behavioral Fiscal Architecture — 301-302, 313, 345
: The intentional design of fiscal institutions, processes, and communications to leverage known behavioral tendencies toward desirable fiscal outcomes.

Capability-Centered Fiscal Design — 14-16, 72, 393, 425, 441, 470-471
: The framework that measures budget quality primarily by the extent to which public spending removes structural obstacles preventing the least-advantaged members of society from functioning as full participants.

Capacity Payment Fiscal Trap — 267, 271, 283, 286
: The condition in which contractual obligations to pay for installed power generation capacity create a fiscal liability that grows with generation expansion, regardless of whether that capacity is efficiently utilized.

Climate Finance Access Deficit — 376-377
: The gap between a country's notional entitlement to climate finance based on vulnerability and emission profile and its actual access based on institutional capacity.

Climate Finance Administrative Drag — 270-271, 287
: The ratio of administrative and compliance costs to total climate finance received, measuring efficiency loss from overhead required to access and manage international climate finance.

Climate Fiscal Actuarialism — 375, 377, 396
: The application of actuarial methods to fiscal planning of climate-related costs, enabling advance provisioning for expected climate fiscal liabilities.

Climate Fiscal Baseline Shift — 258, 260, 285
: The process by which the long-run structural fiscal requirements of a climate-vulnerable country increase as climate change progresses, raising the baseline level of spending needed for adaptation and resilience.

Climate Fiscal Metabolism — 317-318, 321, 345
: The rate at which a country's fiscal system converts environmental vulnerability and climate risk into productive investment reaching the most exposed communities and infrastructure.

Climate Fiscal Moral Authority — 266, 271-272, 283, 286
: The political resource that accrues to countries that suffer severe climate impacts disproportionate to their contribution to cumulative greenhouse gas emissions.

Climate Fiscal Stress — 448, 451, 473
: The condition in which compound effects of climate change on a government's fiscal system exceed its capacity to absorb them without emergency borrowing, expenditure cuts, or international assistance.

Climate-Integrated Fiscal Design — 374, 377, 396
: The systematic incorporation of climate risk assessment, adaptation investment planning, and environmental price signals into every layer of the national budget process.

Compound Graduation Fiscal Shock — 369-371, 373, 396
: The full ensemble of fiscal pressures simultaneously generated by LDC graduation, including preference revenue erosion, concessional finance transition, subsidy discipline constraints, TRIPS compliance costs, aid architecture shifts, and political economy adjustment costs.

Conditional Multiplier Matrix — 331-332, 346
: A two-dimensional framework mapping fiscal multiplier estimates for each expenditure category against each economic cycle phase, guiding counter-cyclical instrument selection.

Conditionality Gradualism — 453-454
: The principle that IMF conditionality should be calibrated to a country's demonstrated institutional capacity for reform implementation, with conditions becoming more demanding as capacity develops.

Cross-Sector Fiscal Synergy Matrix — 367-368, 396
: Systematic accounting of second-order fiscal returns that flow from investments in one sector to outcomes in other sectors.

Debt Behavioral Threshold — 96-97, 99
: The level of the debt service ratio at which the government begins cutting productive spending rather than politically protected spending, creating a self-reinforcing cycle of reduced growth and worsened debt position.

Deferred Maintenance Fiscal Multiplier — 269-271, 287
: The ratio of reconstruction cost to the annual maintenance expenditure that would have prevented infrastructure failure.

Deliberative Fiscal Democracy — 205-206, 209-210, 224-225, 227
: The principle that legitimate budget decisions require not merely formal parliamentary approval but genuine informed deliberation with meaningful opportunities for affected populations to contribute.

Developmental Fiscal State — 276, 281, 287
: A government that uses its full fiscal toolkit not merely to maintain macroeconomic stability but to actively shape conditions for broad-based, sustainable, and institutionally robust economic transformation.

Developmental-Clientelist Hybrid — 18, 23, 470
: The system in which genuine developmental initiatives coexist with politically motivated allocations, where public resources are distributed partly according to developmental logic and partly according to coalition-building logic.

Digital Fiscal Infrastructure — 171, 173-174, 242-243, 247, 284, 443-447, 469
: The integrated network of digital systems, data flows, institutional protocols, and human capabilities through which a state mobilizes revenue, manages expenditure, monitors implementation, enforces accountability, and communicates with citizens about public finances.

Digital Revenue Frontier — 382, 385
: The boundary of the taxable economy that expands as digital commerce, platform-mediated transactions, and digital service delivery become larger shares of the economy.

Digital Revenue Legibility — 244, 284
: The increase in the fiscal authority's ability to observe, verify, and assess the tax liability of economic actors resulting from the digitization of economic transactions.

Digital Revenue Sovereignty — 445, 447, 473
: A state's effective capacity to claim and collect tax revenues generated by economic activity occurring within its digital space.

Digitally Mediated Fiscal Exclusion — 246-247, 285
: The condition in which expansion of digital government services reduces access for populations without reliable digital connectivity, creating two-tier fiscal citizenship.

Disaster Risk Financing Architecture — 376-377
: The systematic pre-design of fiscal instruments deployed at each stage of a disaster event.

Doctrine of Accumulated Fiscal Potential — 293-294, 296, 344
: The recognition that an economy's actual revenue collection represents only a fraction of its latent taxable capacity, constituting a stock of untapped fiscal capacity accessible through institutional reform.

Doctrine of Aligned Incentive Reform — 229-230, 235-236, 283
: The principle that fiscal governance reforms are durable when they restructure the incentive landscape such that efficient, honest performance becomes privately rewarding.

Doctrine of Calibrated Fiscal Realism — 390-393, 397
: The standard evaluating a budget by whether it honestly represents the fiscal situation, identifies challenges with rigor, deploys instruments in credible improvement directions, and builds institutional foundations.

Doctrine of Creditor Portfolio Diversification — 314-315, 317, 345
: The principle that debt sustainability is determined not only by aggregate ratios but by diversification of the creditor portfolio, with high concentration creating unmanageable strategic exposure.

Doctrine of Crisis as Fiscal Founding Opportunity — 356, 359, 395
: The principle that political and institutional crises can create space for fiscal institutional reform by destroying vested interests and institutional inertia.

Doctrine of Developmental Revenue Sovereignty — 181, 183, 223, 226
: The principle that developing economies have a special claim to prioritize the integrity of their domestic revenue base against international tax avoidance practices.

Doctrine of Digital Fiscal Leakage Prevention — 446-447, 469
: The principle that every element of Digital Fiscal Infrastructure should be designed with explicit attention to exploitation mechanisms and built-in countermeasures.

Doctrine of Fiscal Distributive Mapping — 420, 422, 425, 465, 469
: The principle that every budget should include a comprehensive analysis of the distributional incidence of both revenue collection and public spending.

Doctrine of Fiscal Gradualism with Structural Anchors — 403-404, 469, 471
: The principle that ambitious revenue targets in developing economies are most credibly achieved through modest, sustained incremental improvements anchored to structural institutional changes.

Doctrine of Fiscal Policy Pluralism — 208, 210, 224, 227
: The principle that budget policy-making should ensure the range of perspectives, evidence, and interests informing fiscal decisions is genuinely plural.

Doctrine of Fiscal Reckoning — 194-195, 198, 205, 227
: The principle that fiscal system integrity depends on credible accounting, investigative, and enforcement mechanisms through which abuses are identified, disclosed, and consequentially sanctioned.

Doctrine of Fiscal Sovereign Diversification — 453-454, 469, 471
: The principle that a developing country should maintain a diverse portfolio of international financial relationships to preserve effective policy sovereignty.

Doctrine of Fiscal Trajectory Continuity — 278, 281, 283, 287
: The principle that the most important fiscal governance success metric is whether the trajectory of improvement across multiple institutional dimensions is positive, continuous, and accelerating.

Doctrine of Fiscal-Financial System Coherence — 372, 396
: The principle that a government cannot pursue fiscal sustainability in isolation from its financial sector governance.

Doctrine of Front-Loaded Educational Investment — 325, 327, 346
: The principle that educational returns are highest at the earliest life-cycle stages, justifying priority allocation to early childhood education and primary quality.

Doctrine of Functional Fiscal Balance — 299, 302, 344
: The principle that the appropriate fiscal deficit is defined by functional requirements of demand, investment, external balance, and distributional equity rather than by any numerical rule.

Doctrine of Governance-Fiscal Simultaneity — 379, 381, 397
: The principle that in economies where governance failures generate major fiscal costs, governance reform is the primary fiscal reform and should be evaluated as a fiscal investment.

Doctrine of Infrastructure Sequencing — 163, 166
: The principle that the economic return to infrastructure investment depends critically on the order in which projects are built to ensure complementary conditions.

Doctrine of Input-Outcome Inversion — 142-143, 145
: The systematic tendency of public education budgets to prioritize visible, quantifiable inputs over less visible but more consequential learning outcomes.

Doctrine of Institutional Bias Disclosure — 77-78
: The principle that every major fiscal statistic should be accompanied by disclosure of known institutional biases affecting its production.

Doctrine of Institutional Fiscal Patience — 340-342, 347
: The principle that genuine fiscal transformation requires sustained institutional investment across multiple political cycles, prioritizing invisible capacity-building investments.

Doctrine of Layered Fiscal Sovereignty — 12-13, 16, 72, 392, 468
: The principle that a state's effective fiscal autonomy operates across five overlapping layers: constitutional, institutional-administrative, macroeconomic-financial, international political-economic, and epistemic.

Doctrine of Mega Project Fiscal Accountability — 164-166, 170
: The principle that infrastructure projects above a defined size threshold should be subject to enhanced fiscal scrutiny requirements.

Doctrine of Multi-Axial Budget Transparency — 83, 85
: The principle that every budget transaction shall be codable along administrative, economic, functional, and programmatic axes.

Doctrine of Multi-Level Fiscal Incentive Alignment — 47, 51, 73
: The principle that effective public spending requires aligning incentives at every level of the system from allocators to front-line providers.

Doctrine of Nominal Expansion, Functional Stagnation — 152, 154
: The pattern where social protection benefit values are periodically increased in nominal terms while real values stagnate or decline.

Doctrine of Non-Negotiable Human Capital — 335, 337, 343, 347, 389, 392
: The principle that expenditure on primary education quality, preventive health, early childhood development, and social protection is non-negotiable in fiscal consolidation.

Doctrine of Pharmaceutical Fiscal Transition — 203-204, 225, 227
: The principle that LDC graduation should not create a pharmaceutical access cliff, and the fiscal architecture for managing the transition should be explicitly planned before graduation.

Doctrine of Preparatory Realism — 88-89, 91-92, 387
: The principle that budget methodology must anchor revenue targets, development program size, and growth projections in realistic assessments of institutional capacity.

Doctrine of Proactive Fiscal Risk Management — 130, 132
: The principle that fiscal risk should be actively managed through prevention, mitigation, and transparency.

Doctrine of Staged Fiscal Crisis Response — 349-350, 352-353, 393, 395
: The principle that budget responses to international crises should be organized across four stages: Early Warning, Adaptive Adjustment, Structural Recalibration, and Resilience Building.

Doctrine of Structural Gender Fiscal Equity — 39, 74, 340, 468
: The principle that gender-responsive budgeting is incomplete if it focuses only on explicitly women-targeted spending and fails to analyze how the entire spending structure challenges gendered distribution of opportunity.

Doctrine of Structural Revenue Reform — 98-99
: The principle that sustainable revenue improvement requires simultaneous attention to tax policy, tax administration, and taxpayer behavior change.

Doctrine of Temporal Fiscal Equity — 32, 34, 73, 427, 468, 471
: The principle that fiscal policy should distribute benefits and burdens fairly across generations, not only within the current population.

Doctrine of Threshold Inadequacy — 295-296, 344
: The principle that binary LDC graduation criteria cannot fully capture the quality of structural transformation distinguishing sustainable from fragile development trajectories.

Doctrine of Transparent Subsidy Accounting — 411, 469
: The principle that all public subsidies, including those delivered through SOE pricing below cost, must be quantified, made visible in fiscal reporting, and evaluated for distributional impact.

Education Budget Structural Compression — 261, 264-265, 282, 286
: The condition where the education budget is so dominated by recurrent salary expenditure that discretionary resources for quality improvement fall below the minimum threshold.

Education Fiscal Paradox — 55-57, 73
: The condition where a government spends significant nominal sums on education while achieving poor outcomes per unit of spending.

Education Trade Balance — 264-265, 286
: The net foreign exchange flow from student mobility: international student tuition receipts minus domestic student tuition payments abroad.

Energy Fiscal Dependence (EFD) — 159-160, 162
: The degree to which the fiscal position is structurally determined by energy sector dynamics, including import costs, power generation prices, and administered pricing decisions.

Energy Fiscal Sovereignty — 362-364, 395
: The degree to which a national fiscal system can make energy-related budget decisions independently of international energy market price movements.

Evidence-Anchored Budget Architecture — 327-328, 332, 346
: A budget design system where every significant allocation is preceded by empirical evidence review, accompanied by a theory of change, supported by monitoring capacity, and subject to revision when evidence contradicts theory.

Evidence Hierarchy of Fiscal Research — 215, 228
: The ordering of budget research methodologies by causal credibility, from descriptive through experimental evaluation.

Exchange Rate Fiscal Sensitivity Coefficient — 240, 242, 282-284
: The percentage change in total budget expenditure requirement per one percentage point of domestic currency depreciation.

Fiscal Authenticity (Principle of) — 11-12, 16, 73, 337, 386-387, 392-393, 424, 467
: The principle that a budget is authentic to the extent that its stated allocations bear a verifiable and honest relationship to actual fiscal behavior and evidenced population needs.

Fiscal Becoming (Philosophy of) — 278, 281, 283, 287, 337-338, 340-342, 347, 392-393, 436-437
: The recognition that the fiscal state is a perpetual institutional and economic evolution, and fiscal policy-making's highest responsibility is to deliberately move the fiscal system toward a higher-capacity, more equitable condition.

Fiscal Citizenship (Doctrine of) — 273, 275, 287
: The principle that sustainable tax systems depend on cultivation of fiscal citizenship as a civic identity component including tax payment as constitutive element of full membership in the national community.

Fiscal Citizenship Quotient (FCQ) — 308-309, 312-313, 345
: A composite measure of the degree to which members of a society internalize norms, obligations, and reciprocal expectations constituting fiscal citizenship.

Fiscal Crisis Anatomy — 253-255, 259, 282, 285
: The systematic decomposition of an economic or social emergency into its fiscal dimensions, identifying channels of fiscal effect.

Fiscal Crisis Severity Classification System (FCSCS) — 254-255, 260, 282, 285
: A classification system for fiscal crises along three dimensions: scope, magnitude, and reversibility.

Fiscal Crisis Topology — 121-122, 127
: A classification of crises by origin (internal/external), speed of onset (sudden/gradual), and reversibility (recoverable/permanently damaging).

Fiscal Data Completeness Horizon — 243-244, 247, 284
: The point beyond which a fiscal data system's records cease to provide reliable information about real-world outcomes of public spending.

Fiscal Data Ecology — 78
: The interconnected system of surveys, administrative records, and statistical models that generates a country's fiscal knowledge.

Fiscal Data Fluidity — 84-85
: The ease with which budget data can be accessed, filtered, aggregated, and visualized by non-specialist users.

Fiscal Diplomatic Capital — 257-258, 260, 285
: The accumulated credibility, relationships, and track record a government deploys in negotiations with international financial institutions.

Fiscal Diversification Dividend — 372-373, 396
: The discounted present value of incremental fiscal revenues generated over a 10-year horizon by a unit of public investment in export diversification.

Fiscal Effectiveness Gap — 104-105
: The difference between welfare improvement public spending would produce at best-practice efficiency and what it actually produces given institutional constraints.

Fiscal Epistemics — 210-211, 215, 224-225, 228
: The study of how knowledge about fiscal systems is produced, validated, contested, and applied.

Fiscal Export Ladder — 291-292, 295, 344
: A framework describing the stages through which export competitiveness must be built post-graduation, with specific budget interventions calibrated to institutional failures at each stage.

Fiscal-Growth Coherence — 41, 44, 73
: The degree to which macroeconomic assumptions embedded in a budget are mutually consistent, grounded in realistic projections, and aligned with fiscal targets.

Fiscal Health Resilience (Principle of) — 69-70, 73
: The principle that the budget should include a structural allocation for maintaining health system capacity to respond to pandemics and mass health crises.

Fiscal Hemorrhage — 405-409, 433-436, 456, 470
: The structured, recurrent, and politically reinforced diversion of public resources away from socially mandated purposes.

Fiscal Implementation Accountability Gap — 197-198, 225, 227
: The systematic distance between fiscal commitments made in the budget and outcomes achieved in implementation.

Fiscal Inaction Cost — 429-430, 433, 436
: The present value of future economic, social, and fiscal costs resulting from failure to make investments that evidence indicates are required.

Fiscal Incidence Benefit Analysis (FIBA) — 213, 216, 228
: An integrated framework combining revenue incidence analysis with expenditure benefit analysis.

Fiscal Informality Gradient — 274-275, 287
: The spectrum of economic actors from fully formal through semi-formal to fully informal.

Fiscal Institutional Metabolism — 229-230, 236, 282-283
: The rate and efficiency with which a PFM system converts reform inputs into sustained improvements in fiscal outcomes.

Fiscal Institutional Sequencing — 465-466, 470, 473
: The ordered development of fiscal institutions in a sequence allowing each to build on foundations established by predecessors.

Fiscal Institutional Structuralism — 188-189, 224, 226, 278
: The doctrine that fiscal policy must explicitly address structural institutional deficiencies rather than assuming them as given.

Fiscal Journalism Depth Index — 190-191, 193, 226
: A measure of the extent to which media coverage addresses pre-budget consultation quality, structural analysis, implementation monitoring, and accountability reporting.

Fiscal Metabolism — 31, 34, 73, 176, 223, 226, 292-293
: The rate at which an economy converts economic activity into government revenue, adjusted for economic composition, compliance capacity, and tax expenditure commitments.

Fiscal Maturity — 462-467, 472-473
: The condition where a fiscal system can reliably convert economic activity into revenue, deploy it through capable institutions, sustain balance across cycles, and adapt to changing conditions while maintaining civic legitimacy.

Fiscal Modeling — 92-93, 98
: The structured, explicit, and revisable process of quantifying relationships between fiscal instruments and economic outcomes under stated assumptions.

Fiscal Option Value of Deferral — 295-296, 344
: The present discounted value of reduction in fiscal adjustment costs enabled by orderly phased transition compared to forced compressed transition.

Fiscal Preparation Cycle — 85-86, 92
: The iterative, multi-actor, informationally asymmetric, and politically mediated process through which a government converts objectives into a coherent annual allocation framework.

Fiscal Public Sphere — 189-190, 193-194
: The networked domain of communication through which citizens, experts, political actors, civil society, and media collectively construct meaning around public finance.

Fiscal Reserve Adequacy — 59-60, 73
: Assessment of whether foreign exchange reserves are sufficient for all fiscal demands in crisis scenarios, not just import-cover metrics.

Fiscal Return to Education Quality — 264-265, 286
: The ratio of additional government revenue generated over a defined horizon following an educational investment to the initial cost.

Fiscal Robustness Design — 442-443
: The principle that fiscal institutions should perform adequately across all plausible scenarios, prioritizing scenarios combining moderate probability with high adverse impact.

Fiscal Scenario Epistemology — 437-438, 443, 469, 473
: The study of what fiscal scenarios can and cannot tell us, distinguishing scenarios as structured imagination from forecasts as predictions.

Fiscal Scenario Resilience — 316-317, 345
: The degree to which a fiscal framework remains functionally solvent across a defined range of adverse scenarios.

Fiscal Sedimentation — 22-23, 73, 297, 470
: The process by which accumulated decisions, commitments, and debt obligations of previous budgets constrain the freedom of current and future budget-makers.

Fiscal Shadow Balance Sheet — 409-412, 433-436, 464
: The accumulated contingent liabilities, off-budget obligations, SOE financial risks, and implicit guarantees not appearing in budget documents.

Fiscal Shockwave — 348-349, 352-353, 364, 395
: The propagating pattern of disruption by which an external event transforms itself into specific categories of fiscal pressure.

Fiscal Shockwave Quantification Protocol — 351-353, 364, 395
: The five-stage analytical process for measuring international crisis fiscal impact: Event Identification, Transmission Velocity, Fiscal Cost Quantification, Policy Option Costing, and Institutional Readiness Assessment.

Fiscal Shock Preparedness Capacity (FSPC) — 124, 127
: The institutional, technical, and financial endowment enabling rapid, effective, and equitable response to a major fiscal shock.

Fiscal Social Capital — 272-276, 287
: The aggregate of trust relationships, civic norms, and reciprocity expectations determining the extent to which voluntary tax compliance exceeds pure deterrence predictions.

Fiscal Standards Adoption Index (FSAI) — 81-82
: A measure of the extent to which a country's budget system complies with international fiscal standards.

Fiscal Sunlight (Philosophy of) — 48, 51, 74
: The normative stance that every dimension of the state's fiscal activity should be visible to citizens as a matter of democratic right.

Fiscal System Complexity — 297-298, 302, 344
: The degree to which a fiscal system exhibits non-linearity, path dependence, emergent behavior, and adaptive response.

Fiscal Technology Leapfrogging — 359, 395
: The concept that developing economies can bypass intermediate stages of fiscal infrastructure development by adopting frontier digital technologies directly.

Fiscal Transmission Failure in Education — 417-418, 425, 436
: The systemic disconnection between fiscal input into an education system and learning outcome output caused by failures at multiple stages.

Fiscal-Credit Complementarity (Principle of) — 43-44, 73
: The principle that sustainable fiscal policy avoids competing with the private sector for financial resources needed for investment.

Fiscal-Financial Contagion — 378, 381, 397
: Bidirectional propagation of stress between a country's banking sector and its public fiscal system through reinforcing feedback loops.

Fiscal-Monetary Interface Stress — 27-28, 73
: The condition where simultaneous pressures of fiscal need and monetary responsibility create institutional conflict neither party can resolve within its own mandate.

Generative Public Spending (Philosophy of) — 321-322, 326, 343, 346
: The principle that the highest form of public expenditure simultaneously addresses immediate welfare, builds future capabilities, reduces future expenditure, and strengthens the social contract.

Generative Social Contract — 458-461, 470-471, 473
: The framework holding that the fiscal relationship between state and citizens is constitutive: the quality of the relationship determines the kind of citizens and state that emerge.

Generativity Index — 322, 324, 326, 346
: A measure of the number of distinct, mutually reinforcing welfare returns generated per unit of public expenditure.

Geoeconomic Fiscal Positioning — 313-314, 317, 343, 345
: The strategic management of external financing relationships to maximize fiscal autonomy, minimize conditionality costs, and hedge concentration risk.

Geofiscal Positioning — 451-452, 454, 469
: The strategic orientation of a country's fiscal relationships within the geopolitical architecture of the global economy.

Geopolitical Fiscal Pass-Through Coefficient — 256-257, 260, 285
: The ratio of domestic fiscal impact per unit of geopolitical commodity price shock.

Geopolitical Fiscal Risk — 65, 74
: The fiscal risk arising from geopolitical strings attached to development financing.

Green Budget Integrity — 268-269, 271, 283, 286
: The quality of a government's climate budget tagging system measured by comprehensiveness, accuracy, transparency, and usefulness.

Green Fiscal Imperative — 161-162
: The principle that renewable energy investment is fiscally rational for reducing long-run energy import dependence and stabilizing energy costs.

Green Fiscal Leverage Ratio — 320-321, 346
: The ratio of total climate investment mobilized per unit of public green fiscal expenditure or green bond proceeds.

Health Fiscal Adequacy Index — 57, 74
: A composite measure of the extent to which a government's health budget is sufficient to provide comprehensive, accessible, and quality health services to the entire population.

Health Fiscal Ecology — 413-415, 469
: The framework holding that health outcomes are produced by the interaction of health spending with the broader fiscal ecology of social determinants including water, sanitation, nutrition, and social protection.

Health Fiscal Sovereignty — 412-413, 415, 436, 467
: The capacity of a state to deploy sufficient public resources to ensure no citizen is denied essential health services or faces financial catastrophe from health expenditure.

Health Financing Transition Pathway — 414-415, 470
: The structured multi-year sequence of fiscal, institutional, and organizational reforms through which a country moves from out-of-pocket financing to integrated public financing capable of Universal Health Coverage.

Human Capital Fiscal Productivity — 415-416, 418, 469
: The rate at which each taka of public education spending generates verifiable, sustained improvement in cognitive, social, and vocational capacities.

Implicit Fiscal Liability Crystallization — 239, 242, 282-284
: The process by which contingent liabilities eventually become explicit claims on the budget when triggering events occur.

Infrastructure Fiscal Depreciation Rate — 269, 287
: The rate at which the economic value of public infrastructure declines in the absence of adequate maintenance expenditure.

Institutional Capture Sclerosis — 399, 404, 436, 470
: A condition where a revenue authority develops vested interests in preserving arrangements that protect discretionary power, facilitate rent extraction, and resist standardization.

Institutional Isomorphism Without Substance — 37, 39, 74
: The process by which governments adopt formal structures of international best-practice fiscal institutions without the accompanying institutional substance.

Institutional Fiscal Realism (Philosophy of) — 300, 345
: The recognition that fiscal policy analysis must begin with honest assessment of the institutional matrix shaping actual behavior, rather than assuming rational benevolent agents.

Layered Fiscal Sovereignty (Doctrine of) — 12-13, 16, 72, 392, 468
: The principle that a state's effective fiscal autonomy operates across five overlapping layers of constraint.

LDC Graduation Fiscal Transition Cost — 280-281, 287
: The aggregate fiscal burden of managing LDC graduation across trade preference loss, external financing cost increase, and pharmaceutical price change channels.

Learning Returns Framework — 260-261, 264-265, 282, 286
: A framework evaluating education expenditure by its marginal improvement in measurable learning outcomes per additional unit of spending.

Loss and Damage Fiscal Quantification — 268, 286
: The methodology for calculating the financial cost of climate-related losses and damages that cannot be addressed through adaptation alone.

Medical Fiscal Architecture — 199-200, 202, 204-205, 224, 227
: The integrated system of public financing mechanisms, institutional actors, policy instruments, and incentive structures through which a state funds health services.

Mobile Fiscal Multiplier — 245, 247, 284
: The ratio of additional fiscal efficiency gains per unit of investment in mobile financial service integration for government payment systems.

Monetary-Fiscal Boundary Erosion — 237, 241, 282-283
: The progressive blurring of boundaries between central bank monetary management and government fiscal management.

Moral Hazard of Serial Amnesty — 406, 409
: Each amnesty increases the likelihood of future evasion by demonstrating that the state will eventually forgive non-compliance at a discounted rate.

Multilateral Fiscal Literacy — 454
: The institutional capacity to understand, navigate, and exploit the full range of international financial institutions and instruments.

National Social Registry — 67, 71, 152-154, 219, 244, 255-257, 277, 325-326, 336, 340, 389, 391, 421-422, 435, 461, 463, 465
: A unified database of households with verified information on composition, income, assets, and program enrollment.

Nordic Fiscal Compact Principle — 249-250, 252, 285
: The insight that the social contract is most stable when citizens perceive taxes are returned in high-quality public services they actually use.

OOP Catastrophe Threshold — 200, 204, 225, 227
: The level of out-of-pocket health expenditure at which a household's health care costs exceed 40 percent of non-food consumption.

Pandemic Fiscal Resilience — 364-365, 368, 396
: The capacity of a fiscal system to absorb the compound shock of a major infectious disease outbreak without catastrophic distress.

Parliamentary Fiscal Intelligence — 69-71, 74
: The institutional capacity of a legislature to independently analyze government fiscal proposals, assess macroeconomic realism, evaluate distributional consequences, and propose alternatives.

Participatory Reform Architecture (Principle of) — 401-402, 404, 435, 468
: The principle that sustainability of institutional reforms depends on the degree to which affected professionals are genuinely incorporated into reform design.

Phantom Facility Problem — 147, 150
: The pattern where a country's health infrastructure overstates its actual healthcare delivery capacity because facilities lack operational resources.

Pharmaceutical Fiscal Transition (Doctrine of) — 203-204, 225, 227
: The principle that LDC graduation should not create a pharmaceutical access cliff, and the transition architecture should be planned before graduation.

Philosophy of Achievable Reasonableness — 133, 136-138, 337
: The standard that a budget is reasonable to the extent its revenue targets reflect realistic collection capacity, its priorities reflect developmental need and implementation capacity, and its financing plan is genuinely implementable.

Pillar-Two Fiscal Optimization (Principle of) — 383, 385, 397
: The principle that developing countries should redesign investment incentive systems to eliminate below-minimum tax privileges neutralized by the global minimum tax.

Platform Fiscal Responsibility Principle — 383, 385, 396
: The allocation of tax collection and remittance obligations to digital platforms rather than individual sellers.

Post-Appropriation Fiscal Accountability Cycle — 206, 210, 227
: The institutional loop through which CAG audit findings are reviewed by the PAC, recommendations issued, ministries respond, and the PAC assesses response adequacy.

Post-Preference Fiscal Shock — 289-290, 295, 344
: The compound fiscal effect on a graduating economy from simultaneous withdrawal of multiple trade, financing, and policy privileges.

Preparatory Realism (Doctrine of) — 88-89, 91-92, 387
: The principle that budget methodology must be anchored in revenue targets set at median of distributional forecasts based on historical collection efficiency.

Preventive Fiscal Priority (Principle of) — 323-324, 327, 346, 414-415, 425, 468
: The principle that within the health budget, resources should be allocated preferentially to preventive, primary, and community-level services.

Procurement Equilibrium Trap — 408-409, 470
: A state where procurement corruption is sufficiently embedded that individual actors face strong incentives to participate even if they prefer honest behavior.

Productive Educational Expenditure (PEE) — 140-141, 145
: The share of total education budget spending that demonstrably reaches and improves the learning environment directly experienced by students.

Protective Fiscal Coverage (PFC) — 150-151, 154
: The proportion of the genuinely vulnerable population receiving social protection transfers adequate to materially improve their welfare.

Public Health Fiscal Credibility Gap — 323, 327, 346, 366
: The distance between a country's stated commitment to universal health coverage in policy documents and its actual resource allocation in annual budgets.

Relational Fiscal Justice — 421-422, 436, 460
: The philosophical framework holding that a just fiscal system reinforces rather than undermines civic dignity and equal standing of all citizens before the state.

Reform Announcement Effect — 400-401, 404, 436
: The immediate political and credibility benefits accompanying announcement of a major institutional reform.

Reform Institutionalization Gap — 400-401, 404, 435-436, 470
: The typically longer and more contested process of actually changing organizational culture, staffing patterns, and operational procedures.

Reserve Depreciation Fiscal Drag — 231, 282-283
: The automatic increase in domestic currency expenditure on external debt service resulting from exchange rate depreciation.

Reserve Fiscal Buffer Calculus — 378-379, 381, 396
: The systematic assessment of fiscal cost of reserve inadequacy against opportunity cost of holding reserves.

Reserve Requirement Fiscal Geometry — 238, 241, 284
: The framework describing how reserve requirements create three-dimensional fiscal effects simultaneously affecting revenue, spending, and financing.

Reserve-Fiscal Coupling — 42, 44, 74
: The degree to which a government's fiscal space is directly constrained by its foreign exchange reserve position.

Revenue Architecture — 176-184, 225, 333-334, 386-387, 391, 424-425
: The totality of structural relationships, institutional actors, legal instruments, behavioral norms, and information systems through which a state transforms economic activity into public resources.

Revenue Architecture Fragmentation — 177-178, 182, 225
: The condition where a state's revenue-gathering apparatus is divided across multiple institutional mandates, legal frameworks, and information systems.

Revenue-Service Digital Compact — 384-385, 397
: The self-reinforcing relationship where digital public services generate transaction records expanding the taxable base, revenue from which funds better digital services.

Shadow Appropriation — 403-404
: A tax expenditure provision functioning as a de facto public subsidy operating through the revenue account rather than expenditure account.

Social Infrastructure Continuum — 29-30, 34, 74, 425, 469
: The framework placing public expenditure goods along a continuum from pure public goods through mixed goods to quasi-private goods provided on equity grounds.

Social Protection Fiscal Consolidation — 389, 393, 397
: The strategy of rationalizing the social protection program portfolio through registry-based identification of overlap and duplication.

Sovereign Developmental Fiscalism — 185, 188-189, 223-224, 226, 278
: The framework holding that fiscal policy must simultaneously serve fiscal sovereignty, developmental transformation, and social contract fulfillment.

Sovereign Green Bond Fiscal Credibility — 266-267, 286
: The composite institutional quality indicator international green bond investors assess in determining whether a sovereign's environmental commitments are credible.

Sovereign Rating Fiscal Recursion — 241-242, 284
: The self-reinforcing relationship where a lower rating increases borrowing costs, worsens fiscal sustainability, and may justify further downgrades.

Structural Agricultural Fiscal Support (SAFS) — 155, 158
: The totality of fiscal interventions shaping agricultural productivity, food security, and rural welfare.

Structural Contextual Comparativism — 248-249, 252-253, 282, 285
: A framework requiring that international comparisons be accompanied by explicit analysis of structural, contextual, and temporal comparability.

Subsidy-to-Investment Fiscal Rotation — 357-358, 360, 388, 395
: The systematic replacement of untargeted commodity subsidies with targeted social protection and productive public investment.

Systemic Integrity Architecture — 408-409
: The idea that corruption control must be built into ex-ante design of institutions through structural features reducing discretion, increasing transparency, and creating independent verification.

Tax Citizenship — 455-458, 467
: The quality of civic relationship between taxpayers and the state manifested through voluntary compliance as expression of civic identity and mutual obligation.

Tax Expenditure Classification Matrix (TECM) — 84-85
: A framework organizing tax expenditures along two dimensions: policy objective and beneficiary group.

Taxpayer Experience Fiscal Elasticity — 274-275, 287
: The responsiveness of voluntary compliance behavior to changes in the quality of the taxpayer experience.

Tertiary Education Fiscal Capture — 263, 265, 286
: The process where public university resources are captured by internal interest groups at the expense of institutional quality.

Theatrical Fiscal Parliament — 25, 28, 74, 470
: A legislature that performs rituals of budget scrutiny without possessing institutional capacity to genuinely reshape the executive's fiscal proposals.

Three-Layer Health Fiscal Assessment — 366-368, 396
: Evaluation of the health budget across Catastrophic Illness Protection, Preventive and Primary Health Infrastructure, and Emergency and Specialized Capacity.

Transformative Fiscal Consolidation — 187, 189, 226
: A deficit reduction strategy prioritizing revenue enhancement over expenditure reduction, protecting social and developmental spending.

Two-Dimensional Fiscal Tracking — 80
: The method of presenting budget allocations in three forms: nominal taka, constant-price taka, and real per-capita taka.

Universal Budget Research — 105-106, 109, 214-216, 225
: The application of the full spectrum of available research methodologies to fiscal phenomena across micro, meso, and macro levels.

VAT Efficiency Ratio (VER) — 94-95, 99
: The ratio of actual VAT revenue to the revenue that would be collected if VAT were applied at the standard rate to the entire consumption tax base.

Withholding-at-Inflow Mechanism — 384-385, 397
: A requirement that banks apply a creditable income tax withholding rate to incoming international payments identified as freelance income.

THE ARCHITECTURE OF PUBLIC FINANCE

NATIONAL BUDGETING OF BANGLADESH

> A definitive and timely work that reimagines Bangladesh's fiscal future with intellectual depth, practical insight, and visionary courage.

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It critically examines the learning crisis, out of pocket health spending, non performing loans, corruption, and the need for a Universal Social Registry. Final chapters propose a detailed draft budget for FY2026–27 and a long term vision for Bangladesh's fiscal sovereignty by 2041.

KEY THEMES

- Constitutional & Institutional Foundations of Public Finance
- Revenue Administration & Fiscal Policy Reform
- Sectoral Expenditure & Human Development
- Banking Sector Risks & Financial Stability
- Climate Finance, Green Growth & Sustainable Development
- LDC Graduation, Global Commitments & Fiscal Sovereignty
- Crisis Management, Governance & Fiscal Resilience
- Digital Governance, Data Systems & Fiscal Innovation
- Budget FY2026–27 & Vision 2041

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